

RYDER SYSTEM INC
Form DEF 14A
March 23, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

Ryder System, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(4) Date Filed:

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Ryder System, Inc.
11690 N.W. 105th Street
Miami, Florida 33178

NOTICE OF 2007 ANNUAL MEETING OF SHAREHOLDERS

Time: 11:00 a.m., Eastern Daylight Time

Date: Friday, May 4, 2007

Place: Hilton Miami Airport and Towers
5101 Blue Lagoon Drive
Miami, Florida 33126

Purpose:

1. To elect five directors.
2. To ratify the appointment of PricewaterhouseCoopers LLP as our independent auditor.
3. To consider any other business that is properly presented at the meeting.

Who May Vote: You may vote if you were a record owner of our common stock at the close of business on March 9, 2007.

Proxy Voting: Your vote is important. You may vote by signing, dating and returning the enclosed proxy card in the proxy envelope, by calling the toll free number on the proxy card or via the Internet using the instructions on the proxy card.

By order of the Board of Directors,
Robert D. Fatovic
Executive Vice President, General Counsel and Corporate Secretary
Miami, Florida
March 23, 2007

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**RYDER SYSTEM, INC.
11690 N.W. 105th STREET
MIAMI, FLORIDA 33178**

PROXY STATEMENT

INFORMATION ABOUT OUR ANNUAL MEETING

Q: Why am I receiving this proxy statement?

A: You are receiving this proxy statement because you own shares of Ryder common stock that entitle you to vote at the 2007 annual meeting of shareholders. Our Board of Directors is soliciting proxies from shareholders who wish to vote at the meeting. By use of a proxy, you can vote even if you do not attend the meeting. This proxy statement describes the matters on which you are being asked to vote and provides information on those matters so that you can make an informed decision. The notice of annual meeting, this proxy statement and the proxy card are being mailed to shareholders on or about March 23, 2007.

Q: When and where is the annual meeting?

A: We will hold the annual meeting on Friday, May 4, 2007, at 11:00 a.m. Eastern Daylight Time at the Hilton Miami Airport and Towers, 5101 Blue Lagoon Drive, Miami, Florida 33126. A map with directions to the meeting can be found on the enclosed proxy card.

Q: What am I voting on?

A: You are voting on two proposals:

1. Election of directors as follows: David I. Fuente, Eugene A. Renna, Abbie J. Smith and Christine A. Varney for a three-year term expiring at the 2010 annual meeting of shareholders and Luis P. Nieto, Jr. for a two-year term expiring at the 2009 annual meeting of shareholders.
2. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditor.

You will also be voting on such other business, if any, as may properly come before the meeting, or any adjournment of the meeting.

Q: What are the voting recommendations of the Board of Directors?

A: The Board recommends that you vote:

FOR the election of each of the director nominees.

FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditor.

Q: Who can vote?

A: Holders of Ryder common stock at the close of business on March 9, 2007 are entitled to vote their shares at the annual meeting of shareholders. As of March 9, 2007, there were 60,825,393 shares of common stock issued and

outstanding.

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Q: What is a shareholder of record?

A: You are a shareholder of record if you are registered as a shareholder with our transfer agent, Computershare Trust Company, N.A.

Q: What is a beneficial shareholder?

A: You are a beneficial shareholder if a brokerage firm, bank, trustee or other agent (the nominee) holds your shares. This is often called ownership in street name, since your name does not appear anywhere in our records.

Q: What shares are reflected on my proxy?

A: Your proxy reflects all shares owned by you at the close of business on March 9, 2007. For participants in our 401(k) Plan, shares held in your account as of that date are included in your proxy.

Q: How many votes are needed for the proposals to pass?

A: The affirmative vote of the holders of at least a majority of the total number of shares outstanding and entitled to vote is required for the election of each director and for approval of each proposal to be presented at the meeting.

Q: What is a quorum?

A: A quorum is the minimum number of shares required to hold a meeting. Under our By-Laws, the holders of a majority of the total number of shares outstanding and entitled to vote at the meeting must be present in person or represented by proxy for a quorum. Broker non-votes and proxies received but marked as abstentions will be included in the calculation of the number of votes considered to be present at the meeting. A broker non-vote occurs when a broker or other nominee who holds shares for another does not vote on a particular item because the nominee does not have discretionary voting authority for that item and has not received instructions from the owner of the shares.

Q: Who can attend the annual meeting?

A: Only shareholders and their guests are invited to attend the annual meeting. To gain admittance, you must bring a form of personal identification to the meeting, where your name will be verified against our shareholder list. If a broker or other nominee holds your shares and you plan to attend the meeting, you should bring a recent brokerage statement showing your ownership of the shares and a form of personal identification.

Q: How do I vote?

A: If you are a shareholder of record, you may vote on the Internet, by telephone or by signing, dating and mailing your proxy card. Detailed instructions for Internet and telephone voting are set forth on the enclosed proxy card.

If your shares are held in our 401(k) Plan, the enclosed proxy will serve as a voting instruction for the trustee of our 401(k) Plan who will vote your shares as you instruct. To allow sufficient time for the trustee to vote, your voting instructions must be received by May 1, 2007. If the trustee does not receive your instructions by that date, the trustee will vote the shares you hold through our 401(k) Plan in the same proportion as those shares in

our 401(k) Plan for which voting instructions were received.

If you are a beneficial shareholder, you must follow the voting procedures of your broker, bank or trustee included with your proxy materials.

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Q: What does it mean if I receive more than one proxy card?

A: It means that you hold shares in more than one account. To ensure that all your shares are voted, sign and return each card. Alternatively, if you vote by telephone or on the Internet, you will need to vote once for each proxy card and voting instruction card you receive.

Q: If I plan to attend the annual meeting, should I still vote by proxy?

A: Yes. Casting your vote in advance does not affect your right to attend the annual meeting.

If you send in your proxy card and also attend the meeting, you do not need to vote again at the meeting unless you want to change your vote. Written ballots will be available at the meeting for shareholders of record.

Beneficial shareholders who wish to vote in person must request a proxy from the nominee and bring that proxy to the annual meeting.

Q: Who pays the cost of this proxy solicitation?

A: We pay the cost of soliciting your proxy and reimburse brokerage firms and others for forwarding proxy materials to you. We have hired D.F. King & Co., Inc., a proxy solicitation firm, to assist with the distribution of proxy materials and the solicitation of votes at an estimated cost of \$19,500, plus out-of-pocket expenses. In addition to solicitation by mail, solicitations may also be made by personal interview, letter, fax and telephone.

Q: What is Householding?

A: The Securities and Exchange Commission's (SEC) Householding rule affects the delivery of our annual disclosure documents (such as annual reports, proxy statements and other information statements) to shareholders. Under this rule, we are allowed to deliver a single set of our annual report and proxy statement to multiple shareholders at a shared address or household, unless a shareholder at that shared address delivers contrary instructions to us through our transfer agent, Computershare Trust Company, N.A. Each shareholder will continue to receive a separate proxy card or voting instruction card even when a single set of materials is sent to a shared address under the Householding program. The Householding program is designed to reduce the expense of sending multiple disclosure documents to the same address.

If you are a registered shareholder and you want to request a separate copy of this proxy statement or accompanying annual report, you may contact our Investor Relations Department by calling (305) 500-4053, in writing at Ryder System, Inc., Investor Relations Department, 11690 N.W. 105th Street, Miami, Florida 33178, or by e-mail to RyderforInvestors@ryder.com, and a copy will be promptly sent to you. If you wish to receive separate documents in future mailings, please contact our transfer agent, Computershare Trust Company, N.A. by calling (800) 730-4001, in writing at Computershare, P.O. Box 43010, Providence, RI 02940-3010, or by e-mail at shareholder-equiserve@computershare.com. Our 2006 annual report and this proxy statement are also available through our website at www.ryder.com.

Two or more shareholders sharing an address can request delivery of a single copy of annual disclosure documents if they are receiving multiple copies by contacting Computershare in the manner set forth above.

If a broker or other nominee holds your shares, please contact such holder directly to inquire about the possibility of Householding.

Q: Who tabulates the votes?

A: Our Board of Directors has appointed Computershare Trust Company, N.A. as the independent Inspector of Election. Representatives of Computershare will count the votes.

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Q: Is my vote confidential?

A: Yes. The voting instructions of shareholders of record will only be available to the Inspector of Election (Computershare) and proxy solicitor (D.F. King). Voting instructions for employee benefit plans will only be available to the plans' trustees and the Inspector of Election. The voting instructions of beneficial shareholders will only be available to the shareholder's bank, broker or trustee. Your voting records will not be disclosed to us unless required by a legal order, requested by you or cast in a contested election.

Q: What if I abstain or withhold authority to vote on a proposal?

A: If you sign and return your proxy card marked "abstain" or "withheld" on any proposal, your shares will not be voted on that proposal and will not be counted as votes cast in the final tally of votes with regard to that proposal. However, your shares will be counted for purposes of determining whether a quorum is present. Accordingly, a marking of "abstain" or "withheld" on any proposal will have the same effect as a vote against the proposal.

Q: What if I sign and return my proxy card without making any selections?

A: If you sign and return your proxy card without making any selections, your shares will be voted "FOR" proposals 1 and 2. If other matters properly come before the meeting, the proxy committee will have the authority to vote on those matters for you at their discretion. At this time, we are not aware of any matters that will come before the meeting other than those disclosed in this proxy statement.

Q: What if I am a beneficial shareholder and I do not give the nominee voting instructions?

A: If you are a beneficial shareholder and your shares are held in the name of a broker, the broker is permitted to vote your shares on the election of directors and the ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditor even if the broker does not receive voting instructions from you.

If you are a beneficial shareholder and your shares are held by a bank, trustee or other agent, your shares will not be voted unless you give the nominee voting instructions.

Q: How do I change my vote?

A: A shareholder of record may revoke a proxy by giving written notice of revocation to our Corporate Secretary before the meeting, by delivering a later-dated proxy (either in writing, by telephone or over the Internet), or by voting in person at the annual meeting.

If you are a beneficial shareholder, you may change your vote by following the nominee's procedures for revoking or changing your proxy.

Q: When are shareholder proposals for next year's annual meeting due?

A: To be considered for inclusion in Ryder's 2008 proxy statement, shareholder proposals must be delivered in writing to us at 11690 N.W. 105th Street, Miami, Florida 33178, Attention: Corporate Secretary, no later than November 24, 2007. Additionally, we must receive proper notice of any shareholder proposal to be submitted at the 2008 annual meeting of shareholders (but not required to be included in our proxy statement) 90 days before

the date of the 2008 annual meeting.

There are additional requirements under our By-Laws and the proxy rules to present a proposal, such as continuing to own a minimum number of Ryder shares until the annual meeting. A copy of our By-Laws can be obtained from our Corporate Secretary. The By-Laws are also included in our filings with the SEC which are available on the SEC's website at www.sec.gov.

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Q: Can I receive future proxy materials electronically?

A: Yes. If you are a shareholder of record you may, if you wish, receive future proxy statements and annual reports online. If you vote via the Internet as described on your proxy card, you may sign up for electronic delivery at the same time.

If you elect this feature, you will receive an e-mail message notifying you when the materials are available along with a web address for viewing the materials and instructions for voting by telephone or on the Internet.

We encourage you to sign up for electronic delivery of future proxy materials as this will allow you to receive the materials more quickly and will reduce our printing and mailing costs.

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**ELECTION OF DIRECTORS
(Proposal 1)**

Under our By-Laws, directors are elected for three-year terms, typically with one-third of the directors standing for election in any given year. The four directors whose terms expire at the 2007 Annual Meeting of Shareholders are David I. Fuente, Eugene A. Renna, Abbie J. Smith and Christine A. Varney. Upon the recommendation of the Corporate Governance and Nominating Committee, the Board has nominated Mr. Fuente, Mr. Renna, Ms. Smith and Ms. Varney for re-election at the 2007 Annual Meeting of Shareholders for a three-year term that expires at the 2010 Annual Meeting of Shareholders, and each have consented to serve if elected.

In February 2007, the Board of Directors elected Luis P. Nieto, Jr. to the Board of Directors. A third-party search firm identified Mr. Nieto as a Board candidate, and after an interview process and a recommendation by the Corporate Governance and Nominating Committee, the Board approved his election to the Board. The search firm was paid a fee for their service. In accordance with our By-Laws, Mr. Nieto is being nominated for election at the 2007 Annual Meeting of Shareholders. Because our By-Laws require that the number of directors whose terms expire in any given year remains as nearly equal in number as possible, Mr. Nieto is being nominated to serve in the class of directors whose terms expire at the 2009 Annual Meeting of Shareholders. Mr. Nieto has consented to serve if elected.

The Board of Directors determined that each director nominee qualifies as independent under applicable regulations, our By-Laws and the categorical independence standards adopted by our Board of Directors in December 2006. These categorical independence standards are set forth under Director Independence on page 11 of this proxy statement.

L. Patrick Hassey, Lynn M. Martin and Hansel E. Tookes, II are currently serving terms that expire at the 2008 Annual Meeting of Shareholders. John M. Berra, Daniel H. Mudd, E. Follin Smith and Gregory T. Swienton are currently serving terms that expire at the 2009 Annual Meeting of Shareholders. In February 2007, Daniel H. Mudd informed us that he was resigning from the Board of Directors effective at the 2007 Annual Meeting of Shareholders.

The principal occupation and certain other information about each director and director nominee appears on the following pages.

The Board of Directors recommends a vote FOR the election of each of the director nominees.

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**NOMINEE FOR DIRECTOR
FOR A TERM OF OFFICE EXPIRING AT THE 2009 ANNUAL MEETING**

Luis P. Nieto, Jr., 51, is President of the Refrigerated Foods Group for ConAgra Foods Inc., one of the largest packaged foods companies in North America. Prior to joining ConAgra, Mr. Nieto was President and Chief Executive Officer of the Federated Group, a leading private label supplier to the retail grocery and foodservice industries from 2002 to 2005. From 2000 to 2002, he served as President of the National Refrigerated Products Group of Dean Foods Company. Prior to joining Dean Foods, Mr. Nieto held positions in brand management and strategic planning with Mission Foods, Kraft Foods and the Quaker Oats Company.

Mr. Nieto was elected to the Board of Directors in February 2007 and is a member of the Audit Committee and the Corporate Governance and Nominating Committee.

Mr. Nieto is a member of the University of Chicago's College Visiting Committee.

**NOMINEES FOR DIRECTOR
FOR A TERM OF OFFICE EXPIRING AT THE 2010 ANNUAL MEETING**

David I. Fuente, 61, served as Chairman and Chief Executive Officer of Office Depot, Inc. from 1987, one year after the company was founded, until he retired as its Chief Executive Officer in June 2000 and as Chairman in December 2001. Before joining Office Depot, Mr. Fuente served for eight years at the Sherwin-Williams Company as President of its Paint Stores Group. Before joining Sherwin-Williams, he was Director of Marketing at Gould, Inc.

Mr. Fuente was elected to the Board of Directors in May 1998 and is a member of the Compensation Committee and the Finance Committee.

Mr. Fuente serves on the Boards of Directors of Office Depot, Inc. and Dick's Sporting Goods, Inc.

Eugene A. Renna, 62, retired from ExxonMobil Corporation in January 2002 where he was an Executive Vice President and a member of its Board of Directors. He was President and Chief Operating Officer of Mobil Corporation, and a member of its Board of Directors, until the time of its merger with Exxon Corporation in 1999. As President and Chief Operating Officer of Mobil, Mr. Renna was responsible for overseeing all of its global exploration and production, marketing and refining, and chemicals and technology business activities. Mr. Renna's career with Mobil began in 1968 and included a range of senior management roles such as: responsibility for

all marketing and refining operations in the Pacific Rim, Africa and Latin America; Executive Vice President of International Marketing and Refining Division; Vice President of Planning and Economics; President of Mobil's worldwide Marketing and Refining Division; and Executive Vice President and Director of Mobil.

Mr. Renna was elected to the Board of Directors in July 2002 and is a member of the Audit Committee and the Finance Committee.

Mr. Renna serves on the Board of Directors of Fortune Brands, Inc.

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Abbie J. Smith, 53, is the Boris and Irene Stern Professor of Accounting at the Graduate School of Business of the University of Chicago. She joined their faculty in 1980 upon completion of her Ph.D. at Cornell University. The primary focus of her research is corporate restructuring, transparency, and corporate governance. Professor Smith is a co-editor of the *Journal of Accounting Research*.

Ms. Smith was elected to the Board of Directors in July 2003 and is the Chair of the Audit Committee and a member of the Finance Committee.

Ms. Smith serves on the Boards of Directors of HNI Corporation, DFA Investment Dimensions Group Inc. and Dimensional Investment Group Inc.

Christine A. Varney, 51, is a Partner in the law firm of Hogan & Hartson LLP, which she rejoined in 1997 after five years in government service. She leads the Internet Law practice group for the firm. Ms. Varney served as a Federal Trade Commissioner from 1994 to 1997 and as a Senior White House Advisor to the President from 1993 to 1994. She also served as Chief Counsel to the President's Campaign in 1992 and as General Counsel to the Democratic National Committee from 1989 to 1992. Prior to her government service, Ms. Varney practiced law with the firms of Pierson, Semmes & Finley (1986 to 1988) and Surrey & Morse (1984 to 1986).

Ms. Varney was elected to the Board of Directors in February 1998 and is the Chair of the Corporate Governance and Nominating Committee and a member of the Compensation Committee.

DIRECTORS CONTINUING IN OFFICE

John M. Berra, 59, is Executive Vice President of Emerson Electric Company and President of Emerson Process Management, a global leader in providing solutions to customers in process control. Mr. Berra joined Emerson's Rosemount division as a marketing manager in 1976 and thereafter continued assuming more prominent roles in the organization until 1997 when he was named President of Emerson's Fisher-Rosemount division (now Emerson Process Management). Prior to joining Emerson, Mr. Berra was an instrument and electrical engineer with Monsanto Company.

Mr. Berra was elected to the Board of Directors in July 2003 and is the Chair of the Compensation Committee and a member of the Finance Committee.

Mr. Berra serves as an advisory director to the Board of Directors of Emerson Electric Company. He also serves as Chairman of the Fieldbus Foundation and is a past Chairman of the Measurement, Control, and Automation Association.

L. Patrick Hassey, 61, is Chairman, President and Chief Executive Officer of Allegheny Technologies Incorporated (ATI), a global leader in the production of specialty materials. Mr. Hassey was Executive Vice President and a member of the corporate executive committee of Alcoa, Inc. from May 2000 until his early retirement in February 2003. He served as Executive Vice President of Alcoa and Group President of Alcoa Industrial Components from May 2000 to October 2002. Prior to May 2000, Mr. Hassey served as Executive Vice President of Alcoa and President of Alcoa Europe, Inc. Prior to becoming President and Chief Executive Officer of ATI in October 2003, he was an outside management consultant to ATI executive management.

Mr. Hassey was elected to the Board of Directors in December 2005 and is a member of the Compensation Committee and the Corporate Governance and Nominating Committee.

Mr. Hassey serves on the Boards of Directors of ATI and the Allegheny Conference on Community Development, which serves Southwestern Pennsylvania.

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Lynn M. Martin, 67, served as Secretary of Labor under President George Bush from 1991 to 1993. Ms. Martin is the President of Martin Hall Group LLC, a consulting firm. She is a regular commentator, panelist, columnist and speaker on issues relating to the changing global economic and political environment Ms. Martin was the Davie Chair at the J.L. Kellogg Graduate School of Management and a Fellow of the Kennedy School Institute of Politics.

Ms. Martin was elected to the Board of Directors in August 1993 and is a member of the Compensation Committee and the Corporate Governance and Nominating Committee.

Ms. Martin serves on the Boards of Directors of The Procter & Gamble Company, AT&T Inc., The Dreyfus Funds, Constellation Energy Group, Inc. and Chicago's Lincoln Park Zoo. She is also a member of the Council on Foreign Relations and the Chicago Council of Global Affairs.

E. Follin Smith, 47, is Executive Vice President, Chief Financial Officer and Chief Administrative Officer of Constellation Energy Group, Inc., the nation's largest competitive supplier of electricity to large commercial and industrial customers and the nation's largest wholesale power seller. Ms. Smith joined Constellation Energy Group as Senior Vice President, Chief Financial Officer in June 2001 and was appointed Chief Administrative Officer in December 2003. Before joining Constellation Energy Group, Ms. Smith was Senior Vice President and Chief Financial Officer of Armstrong Holdings, Inc., the global leader in hard-surface flooring and ceilings. Ms. Smith began her career with Armstrong in 1998 as Vice President and Treasurer and was promoted to her last position in March 2000. Prior to joining Armstrong, Ms. Smith held various senior financial positions with General Motors including Chief Financial Officer for General Motors' Delphi Chassis Systems division.

Ms. Smith was elected to the Board of Directors in July 2005 and is a member of the Audit Committee and the Corporate Governance and Nominating Committee.

Ms. Smith serves on the Board of Trustees of the University of Virginia's Darden School of Business, the Board of Visitors of Davidson College and the Board of CENTERSTAGE, in Baltimore, Maryland.

Hansel E. Tookes, II, 59, retired from Raytheon Company in December 2002. He joined Raytheon in September 1999 as President and Chief Operating Officer of Raytheon Aircraft Company. He was appointed Chief Executive Officer in January 2000 and Chairman in August 2000. Mr. Tookes became President of Raytheon International in May 2001. Prior to joining Raytheon in 1999, Mr. Tookes had served as President of Pratt & Whitney's Large Military Engines Group since 1996. He joined Pratt & Whitney's parent

company, United Technologies Corporation in 1980. Mr. Tookes was a Lieutenant Commander and military pilot in the U.S. Navy and later served as a commercial pilot with United Airlines.

Mr. Tookes was elected to the Board of Directors in September 2002 and is the Chair of the Finance Committee and a member of the Audit Committee.

Mr. Tookes serves on the Boards of Directors of BBA Aviation plc, Corning Incorporated, FPL Group, Inc., and Harris Corporation.

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Gregory T. Swienton, 57, was appointed Chairman of Ryder System, Inc. in May 2002 having been named Chief Executive Officer in November 2000. Mr. Swienton joined Ryder as President and Chief Operating Officer in June 1999. Before joining Ryder, Mr. Swienton was Senior Vice President-Growth Initiatives of Burlington Northern Santa Fe Corporation (BNSF). Prior to that he was BNSF 's Senior Vice President-Coal and Agricultural Commodities Business Unit and previously had been Senior Vice President of its Industrial and Consumer Units. He joined the former Burlington Northern Railroad in June 1994 as Executive Vice President-Intermodal Business Unit. Prior to joining Burlington Northern, Mr. Swienton was Executive Director-Europe and Africa of DHL Worldwide Express in Brussels, Belgium from 1991 to 1994, and prior to that, he was DHL 's Managing Director-Western and Eastern Europe from 1988 to 1990, also located in Brussels. For the five years prior to these assignments, Mr. Swienton was Regional Vice President of DHL Airways, Inc. in the United States. From 1971 to 1982, Mr. Swienton held various national account, sales and marketing positions with AT&T and Illinois Bell Telephone Company.

Mr. Swienton was elected to the Board of Directors in June 1999.

Mr. Swienton serves on the Board of Directors of Harris Corporation and is on the Board of Trustees of St. Thomas University in Miami, Florida.

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CORPORATE GOVERNANCE

We maintain a Corporate Governance page on our website at www.ryder.com, which includes our Corporate Governance Guidelines, Principles of Business Conduct (including the Finance Code of Ethics) and Board Committee charters. The Corporate Governance Guidelines set forth our governance principles relating to, among other things: director independence; director qualifications and responsibilities; Board structure; director compensation; management succession; and the periodic performance evaluation of the Board. The Principles of Business Conduct apply to our officers, employees and Board members and cover all areas of professional conduct including conflicts of interest, confidentiality and compliance with law. The Principles of Business Conduct include a Finance Code of Ethics applicable to our Chief Executive Officer, Chief Financial Officer, controller and senior financial management. Any changes to these documents and any waivers granted by the Corporate Governance and Nominating Committee (Governance Committee) with respect to our Principles of Business Conduct will be posted on our website. Any waivers shall also be disclosed in a public filing made with the SEC.

Shareholders may submit requests for free printed copies of our Corporate Governance Guidelines, Principles of Business Conduct (including the Finance Code of Ethics) and Board Committee Charters in writing to: Ryder System, Inc., Attention: Corporate Secretary, 11690 N.W. 105th Street, Miami, Florida 33178.

BOARD OF DIRECTORS

Director Independence

It is our policy that a substantial majority of the members of our Board of Directors and all of the members of our Audit Committee, Compensation Committee, Governance Committee and Finance Committee qualify as independent as required by the New York Stock Exchange (NYSE) corporate governance listing standards and our By-Laws.

To assist it in making independence determinations, in December 2006, our Board of Directors adopted categorical independence standards. The Board determined that each of the following transactions or relationships will not, by itself, be deemed to create a material relationship for the purpose of determining a director's independence:

Prior Employment. The director was employed by us or was personally working on our audit as an employee or partner of our independent auditor, and over five years have passed since such employment, partnership or auditing relationship ended.

Employment of Immediate Family Member. (i) An immediate family member was an officer of ours or was personally working on our audit as an employee or partner of our independent auditor, and over five years have passed since such employment, partnership or auditing relationship ended; or (ii) an immediate family member is currently employed by us in a non-officer position, or by our independent auditor not as a partner and not participating in the firm's audit, assurance or tax compliance practice.

Interlocking Directorships. An executive officer of ours served on the board of directors of a company that employed the director or employed an immediate family member as an executive officer, and over five years have passed since either such relationship ended.

Commercial Relationships. The director is an employee, partner, greater than 10% shareholder, or director (or a director's immediate family member is a partner, greater than 10% shareholder, director or officer) of a company that makes or has made payments to, or receives or has received payments (other than contributions, if the company is a tax-exempt organization) from, us for property or services, and the amount of such payments has not within any of such other company's three most recently completed fiscal years exceeded one percent (or \$1 million, whichever is greater) of such other company's consolidated gross revenues for such year.

Indebtedness. A director or an immediate family member is a partner, greater than 10% shareholder, director or officer of a company that is indebted to us or to which we are indebted, and the aggregate amount of such debt is less than one percent (or \$1 million, whichever is greater) of the total consolidated assets of the indebted company.

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Charitable Relationships. A director is a trustee, fiduciary, director or officer of a tax-exempt organization to which we make contributions, and the contributions to such organization by us have not, within any of such organization's three most recently completed fiscal years, exceeded one percent (or \$250,000, whichever is greater) of such organization's consolidated gross revenues for such year.

For purposes of these independence standards, an immediate family member includes a director's spouse, parents, children, siblings, mother- and father-in-law, sons- and daughters-in-law, brothers- and sisters-in-law, and anyone (other than domestic employees) who shares such director's home.

Pursuant to our Corporate Governance Guidelines, the Board undertook its annual review of director independence in February 2007, which included a review of each director's responses to questionnaires asking about any relationships with us. This review is designed to identify and evaluate any transactions or relationships between a director or any member of his or her immediate family and us, or members of our senior management, and all relevant facts and circumstances regarding any such transactions or relationships.

As part of this review, other than the relationship with Mr. Swinton, our CEO, the Governance Committee and the Board identified and considered only one transaction between us and one of our directors. In his role as President of Emerson Process Management, John M. Berra also serves as Executive Vice President of Emerson Electric Company. We have entered into a commercial relationship with Emerson Electric Company relating to Emerson's lease of vehicles from us. The transaction falls below our categorical independence standard relating to commercial relationships, and therefore, the Board determined it to be immaterial. Accordingly, the Board determined that each of the following directors (which together constitute all of the members of the Board other than Mr. Swinton) is independent: John M. Berra, David I. Fuente, L. Patrick Hassey, Lynn M. Martin, Daniel H. Mudd, Luis P. Nieto, Jr., Eugene A. Renna, Abbie J. Smith, E. Follin Smith, Hansel E. Tookes, II and Christine A. Varney.

Communications with the Board

Shareholders and other interested parties can communicate with our independent directors as a group through the Corporate Governance page of our website at www.ryder.com, or by mailing their communication to Independent Directors, c/o Corporate Secretary, Ryder System, Inc., 11690 N.W. 105th Street, Miami, Florida 33178. Any communications received from interested parties in the manner described above will be collected and organized by our Corporate Secretary and will be periodically, but in any event prior to each regularly-scheduled Board meeting, reported and/or delivered to our independent directors. The Corporate Secretary will not forward spam, junk mail, mass mailings, service complaints or inquiries, job inquiries, surveys, business solicitations or advertisements, or patently offensive or otherwise inappropriate materials to the independent directors. Correspondence relating to certain of these matters such as service issues may be distributed internally for review and possible response. The procedures for communicating with our independent directors as a group are available on the Corporate Governance page of our website at www.ryder.com.

Our Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding questionable accounting, internal control, financial improprieties or auditing matters. Any of our employees or members of the general public may confidentially communicate concerns about any of these matters to any supervisor or manager, the Vice President of Internal Audit, the Vice President, Global Compliance and Business Standards/ Deputy General Counsel, or on a confidential and/or anonymous basis by way of an external toll-free hotline number, an internal ethics phone line, ethics@ryder.com, or audit@ryder.com. All of the reporting mechanisms are publicized on our website at www.ryder.com, in our Principles of Business Conduct, through compliance training and wallet cards, brochures and location posters. Upon receipt of a complaint or concern, a determination will be made whether it pertains to accounting, internal control or auditing matters and if it does, it will be handled in accordance with the procedures established by the Audit Committee. A summary of all complaints, of whatever type, received through the reporting mechanisms are reported to the Audit Committee at each regularly-scheduled Audit Committee meeting. Matters requiring immediate attention are promptly forwarded to the Chair of the Audit Committee.

Board Meetings

The Board of Directors held six meetings in 2006. Each of the directors attended 75% or more of the aggregate number of meetings of the Board and Committees on which the director served in 2006. Attendance by all directors

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at Board and Committee meetings averaged 98% in 2006. Our independent directors meet in executive session without management present as part of each regularly-scheduled Board meeting. The Chair of our Governance Committee presides over these executive Board sessions.

We expect each of our directors to attend our annual meeting of shareholders. Because the Board of Directors holds one of its regular meetings in conjunction with our annual meeting of shareholders, unless one or more members of the Board are unable to attend, all of the members of the Board are present for the annual meeting. All of our directors attended the 2006 Annual Meeting of Shareholders.

Board Committees

The Board has four standing committees – Audit, Compensation, Finance and Corporate Governance and Nominating. All of the Committees are composed entirely of independent directors who meet in executive session without management present as part of each regularly-scheduled Committee meeting. We have adopted written charters for each of the Committees that comply with the NYSE’s corporate governance listing standards and applicable provisions of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and SEC rules. The Committee charters set forth each Committee’s responsibilities, and provide for a periodic review of the charter and an annual evaluation of the Committee’s performance. The charters grant each Committee the authority to obtain the advice and assistance of, and receive appropriate funding from us for, outside legal, accounting or other advisors as the Committee deems necessary to fulfill its obligations.

AUDIT COMMITTEE

Members:	Abbie J. Smith (Chair) Daniel H. Mudd Luis P. Nieto, Jr. Eugene A. Renna E. Follin Smith Hansel E. Tookes, II	Number of meetings in 2006:	9
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Responsibilities

The Audit Committee is responsible for appointing, overseeing and determining the compensation and independence of our independent auditor. The Committee approves the scope of the annual audit and the related audit fees as well as the scope of internal audit procedures. The Committee reviews audit results, financial disclosure and earnings guidance, and is responsible for overseeing investigations into accounting and financial complaints. The Committee reviews major financial risk exposures and management’s policies relating to those risks.

The specific powers and responsibilities of the Audit Committee are set forth in more detail in the Audit Committee’s charter, which is available on the Corporate Governance page of our website at www.ryder.com. The charter is reviewed annually by the Audit Committee and our Governance Committee. Any changes to the charter are approved by the full Board.

Independence and Financial Expertise

In addition to the independence standards applicable to all Board members, rules issued by the SEC pursuant to Sarbanes-Oxley require that all members of our Audit Committee meet additional independence standards. Under NYSE rules, each member of the Audit Committee must be financially literate and at least one member must have accounting or related financial management expertise. The SEC requires that at least one Audit Committee member be an audit committee financial expert. The Board reviewed the background, experience and independence of Audit Committee members based in large part on the directors’ responses to questions relating to their background and experience. Based on this review, the Board determined that each member of the Audit Committee meets the enhanced independence standards for audit committee members required by the SEC; is financially literate, knowledgeable and qualified to review financial statements; qualifies as an audit committee financial expert

under SEC rules; and has accounting and related financial management expertise.

Table of Contents**COMPENSATION COMMITTEE**

Members:	John M. Berra (Chair) David I. Fuente L. Patrick Hassey Lynn M. Martin Christine A. Varney	Number of Meetings in 2006:	7
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Responsibilities

The Compensation Committee of our Board of Directors administers all of our executive and director compensation policies and programs and regularly reports to the Board of Directors on these matters. When we refer to our executive compensation program, we are referring to the compensation program for our CEO, Chief Financial Officer (CFO), three division presidents and four executive vice presidents (executive officers). The Compensation Committee approves and recommends the appointment of new officers and reviews and discusses the Compensation Discussion and Analysis included in this proxy statement to determine whether to recommend it for inclusion in our proxy statement.

The specific powers and responsibilities of the Compensation Committee are set forth in more detail in the Compensation Committee's Charter, which is available on the Corporate Governance page of our website at www.ryder.com. The charter is reviewed annually by the Compensation Committee and our Governance Committee. Any changes to the charter are approved by the full Board.

Compensation Processes and Procedures

Meetings. The Compensation Committee meets at least five times each year in February, May, July, October and December. Each year in December, the Committee reviews and approves an agenda schedule for the following year. The agenda schedule outlines the various topics the Committee will consider during the year to ensure that the Committee adequately fulfills its responsibilities under its charter. The Committee considers other topics during the year as needed to fulfill its responsibilities. Our Chief Human Resources Officer (CHRO) works closely with the Chair of the Committee prior to each Committee meeting to ensure that the information presented to the Committee in connection with the items to be discussed and/or approved by the Committee is clear and comprehensive. The information is then provided to the Committee for its review and consideration typically one week prior to the meeting. The CHRO, CEO, Vice President of Compensation and Benefits and a representative from our legal department all attend the Committee meetings to assist the Committee in its discussion and analysis of the various agenda items. These individuals are generally excused from the Committee meetings as appropriate, including for discussions regarding their own compensation. The Committee meets in executive session, consisting exclusively of outside directors, at the end of every regularly-scheduled Committee meeting.

Authority, Role of Management and Delegation. Generally, the Committee is responsible for reviewing and approving all of the components of our executive compensation program as well as the compensation program for our Board of Directors. New executive compensation plans and programs must be approved by the full Board based on recommendations made by the Committee. All compensation decisions for our CEO are made by all of the independent directors on our Board supported by recommendations made by the Committee. All compensation decisions for our Board of Directors are made by the Board based in part on recommendations made by the Committee and the Governance Committee.

In determining the compensation package for Mr. Swinton, the Committee and the independent directors consider the results of Mr. Swinton's annual performance evaluation, comparative compensation data and information on our competitive position and performance. In January 2006, our independent directors completed a comprehensive CEO evaluation questionnaire. The questionnaire focused on (a) our historical and forecasted performance, (b) Mr. Swinton's effectiveness in leading the organization, the Board and

external constituencies, and (c) his effectiveness at team building and succession planning and development. With respect to compensation decisions for other executive officers, our CEO gives the Committee a performance assessment and compensation recommendation for each executive officer. The performance assessment includes strengths, weaknesses and succession

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potential and is based on individual performance evaluations conducted by the CHRO, CEO and the executive officer's direct supervisor (if different from the CEO). Our CEO also reviews compensation data provided by our compensation group, legal department and outside consultants. Our CEO, in his role as Chairman of the Board, also reviews the information to be presented to the Committee and the Board in connection with our Board compensation program.

The Committee's charter allows the Committee, to the extent permitted by the relevant equity compensation plan, to delegate its authority to approve equity awards to management (other than to the CEO or his direct reports), provided that the Committee receives at least annually a report from management detailing any equity award grants made pursuant to such delegated authority. The Committee previously delegated to our CEO, CFO and CHRO, the right to collectively approve off-cycle equity awards to our employees (other than our executive officers) provided that amounts approved did not exceed the applicable guidelines for equity awards previously set by the Committee. During 2006, management used its delegated authority to grant 8,000 options to new hires or in connection with promotion or retention packages for existing employees (none of whom were company officers). In February 2007, the Committee approved a Policy on Equity Granting Practices, which provides that all grants of equity awards must be approved by the Committee, or in certain limited instances, the Chair of the Committee.

Use of Compensation Consultants. The Committee has authority to retain outside consultants to assist it in fulfilling its responsibilities. Except as described below, all consultants and legal counsel used in 2006 were retained by management.

In mid-2005, at the direction of the Compensation Committee, management retained Mercer Human Resources Consulting (Mercer) to review our long-term incentive programs and make recommendations with respect to amending the programs based on competitive practices and emerging trends. Mercer provided a report to management summarizing its findings and recommendations, which management considered when making its recommendations to the Committee regarding changes to our long-term incentive program.

In 2006, management (at the request of the Committee) retained Deloitte & Touche LLP (Deloitte) and Mercer to review and evaluate our severance and change of control severance programs relative to market standards. Mercer compared the type and amount of severance and change of control severance benefits provided by us as well as the general terms and conditions of our programs with those of comparable companies within Mercer's proprietary database. Deloitte provided comprehensive data and calculations regarding potential change of control severance payments under our existing program and various other scenarios. Management also retained outside legal counsel to review the terms and conditions of our existing severance and change of control severance programs in light of market trends and emerging governance practices. Each of the consulting firms and outside counsel provided a report to management which summarized their findings. This information was communicated to the Committee and the Board in connection with their review of our existing severance and change of control severance programs and their consideration of proposed changes to the programs.

The Committee retained its own legal counsel to prepare new individual severance and change of control severance agreements for each of our executive officers, including Mr. Swinton, which will replace the executive's existing severance and change of control severance agreements.

Compensation Committee Interlocks and Insider Participation. In 2006, none of our executive officers or directors was a member of the board of directors of any other company where the relationship would be considered a committee interlock under SEC rules.

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CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

Members:	Christine A. Varney (Chair) L. Patrick Hassey Lynn M. Martin Daniel H. Mudd Luis P. Nieto, Jr. E. Follin Smith	Number of Meetings in 2006:	5
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Responsibilities

The Corporate Governance and Nominating Committee is responsible for recommending criteria for Board membership, identifying qualified individuals to serve as directors, reviewing the qualifications of director candidates, including those recommended by our shareholders pursuant to our By-Laws, and recommending to the Board the nominees to be proposed by the Board for election as directors at our annual meeting of shareholders. The Committee recommends the size, structure, composition and functions of Board Committees and reviews and recommends changes to the Committee charters. The Committee oversees the Board evaluation process. The Committee reviews and recommends changes to our Corporate Governance Guidelines and Principles of Business Conduct. The Committee is also responsible for identifying and analyzing trends in public policy, public affairs and corporate responsibility. The specific powers and responsibilities of the Governance Committee are set forth in more detail in the Governance Committee's charter, which is available on the Corporate Governance page of our website at www.ryder.com. The charter is reviewed annually by the Governance Committee. Any changes to the charter are approved by the full Board.

Process for Nominating Directors

In identifying individuals to nominate for election to our Board, the Governance Committee seeks candidates that:

- have a high level of personal integrity and exercise sound business judgment;
- are highly accomplished in their fields, with superior credentials and recognition and have a reputation, both personal and professional, consistent with our image and reputation;
- have relevant expertise and experience, and are able to offer advice and guidance to our senior management;
- have an understanding of, and concern for, the interests of our shareholders; and
- have sufficient time to devote to fulfilling their obligations as directors.

The Committee will seek to identify individuals who would qualify as independent under applicable NYSE listing standards and our By-Laws and who are independent of any particular constituency. The Committee may, based on the composition of the Board, seek individuals that have specialized skills or expertise, experience as a leader of another public company or major complex organization, or relevant industry experience. In addition, the Committee will attempt to select candidates who will assist in making the Board a diverse body in terms of age, gender, ethnic background and professional experience.

Generally, the Committee identifies individuals for service on our Board through experienced director search firms that are paid to use their extensive resources and networks to find qualified individuals who meet the qualifications established by the Board. These search firms create a comprehensive record of a candidate's background, business and professional experience and other information that would be relevant to the Committee in determining a candidate's capabilities and suitability. The Committee will also consider qualified candidates who are proposed by other

members of the Board, our senior management and, to the extent submitted in accordance with the procedures described below, our shareholders. The Committee will not consider a director candidate unless the candidate has expressed his or her willingness to serve on the Board if elected and the Committee has received sufficient information relating to the candidate to determine whether he or she meets the qualifications established by the Board.

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If a shareholder would like to recommend a director candidate to the Committee, they must deliver to the Committee the same information and statement of willingness to serve described above. In addition, the recommending shareholder must deliver to the Committee a representation that the shareholder owns shares of our common stock and intends to continue holding those shares until the relevant annual meeting of shareholders as well as a representation regarding the shareholder's direct and indirect relationship to the suggested candidate. This information should be delivered to us at 11690 N.W. 105th Street, Miami, Florida 33178, Attention: Corporate Secretary, for delivery to the Committee no later than 90 days prior to the date of the annual meeting of shareholders. Any candidates properly recommended by a shareholder will be considered and evaluated in the same way as any other candidate submitted to the Committee. Upon receipt of this information, the Committee will evaluate and discuss the candidate's qualifications, skills and characteristics in light of the current composition of the Board. The Committee may request additional information from the recommending party or the candidate in order to complete its initial evaluation. If the Committee determines that the individual would be a suitable candidate to serve as one of our directors, the candidate will be asked to meet with members of the Committee, members of the Board and/or members of senior management, including in each case, our CEO, to discuss the candidate's qualifications and ability to serve on the Board. Based on the Committee's discussions and the results of these meetings, the Committee will recommend a nominee or nominees for election to the Board either by our shareholders at our annual meeting of shareholders or by the Board to fill vacancies on the Board between annual meetings. The Board will, after consideration of the Committee's recommendations, nominate a slate of directors for election by our shareholders, or with regards to filling vacancies, elect a nominee to the Board.

FINANCE COMMITTEE

Members:	Hansel E. Tookes, II (Chair) John M. Berra David I. Fuente Eugene A. Renna Abbie J. Smith	Number of Meetings in 2006:	5
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Responsibilities

The Finance Committee is responsible for reviewing our overall financial goals, position, arrangements and requirements. The Committee reviews, approves and recommends capital expenditures, issuances of debt and equity securities, dividend policy and pension contributions. The Committee is also responsible for reviewing our relationships with rating agencies, banks and analysts, and reviewing and assessing our risk management activities and tax planning strategies.

The specific powers and responsibilities of the Finance Committee are set forth in more detail in the Finance Committee's charter which is available on the Corporate Governance page of our website at www.ryder.com. The charter is reviewed annually by the Finance Committee and our Governance Committee. Any changes to the charter are approved by the full Board.

RELATED PERSON TRANSACTIONS

We recognize that related person transactions can present potential or actual conflicts of interest and create the appearance that our decisions are based on considerations other than in our best interests and that of our shareholders. Accordingly, as a general matter, it is our preference to avoid related person transactions. Nevertheless, we recognize that there are situations where related person transactions may be in, or may not be inconsistent with, our best interests, including but not limited to situations where we may obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternative sources or when we provide products or services to related persons on an arm's length basis on terms comparable to those provided to unrelated third parties or on terms comparable to

those provided to employees generally.

Our Board of Directors is responsible for reviewing and pre-approving all transactions with any related person. Related persons include any of our directors or executive officers and their respective immediate family members. This policy is set forth in our Principles of Business Conduct, which is available on the Corporate Governance page of our website at www.ryder.com.

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**RATIFICATION OF INDEPENDENT AUDITOR
(Proposal 2)**

Our Audit Committee appointed PricewaterhouseCoopers LLP as our independent auditor for the 2007 fiscal year. Although shareholder ratification of the appointment of PricewaterhouseCoopers LLP is not required, the Board of Directors believes that submitting the appointment to the shareholders for ratification is a matter of good corporate governance. The Audit Committee will consider the outcome of this vote in future deliberations regarding the appointment of our independent auditor. Representatives of PricewaterhouseCoopers LLP will be present at the 2007 Annual Meeting of Shareholders to respond to questions and to make a statement if they desire to do so.

Change in Auditor

During 2005, the Audit Committee solicited proposals from the four major accounting firms and conducted an extensive evaluation process in connection with the selection of our independent auditor for the fiscal year ending December 31, 2006. Following this process, on September 22, 2005, the Audit Committee dismissed KPMG LLP as our independent auditor for the fiscal year ending December 31, 2006 and appointed PricewaterhouseCoopers LLP to serve as our independent auditor for 2006. KPMG LLP served as our independent auditor for the fiscal year ended December 31, 2005.

KPMG LLP's audit report on our consolidated financial statements for the fiscal year ended December 31, 2005 did not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles, except that KPMG LLP's audit report dated February 15, 2006 included an explanatory paragraph related to the change in method of accounting for conditional asset retirement obligations in 2005 and methods of accounting for variable interest entities and asset retirement obligations in 2003. The audit report of KPMG LLP on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2005 did not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. During fiscal 2005 and through February 17, 2006, (i) there were no disagreements between us and KPMG LLP on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG LLP, would have caused KPMG LLP to make reference to the subject matter of the disagreement in its report on our consolidated financial statements, and (ii) there were no reportable events as that term is defined in Item 304(a)(1)(v) of Regulation S-K. During fiscal 2005 and through February 17, 2006, neither we nor anyone acting on our behalf, consulted PricewaterhouseCoopers LLP regarding any of the matters or events set forth in Item 304(a)(2) of Regulation S-K.

Fees and Services of Independent Auditor

Fees billed for services by PricewaterhouseCoopers LLP for the 2006 fiscal year and KPMG LLP for the 2005 fiscal year were as follows (\$ in millions):

	2006 ¹	2005 ²
Audit Fees	\$ 3.3	\$ 3.4
Audit-Related Fees	0.3	0.2
Tax Fees	0.3	0.1
All Other Fees	*	0.0
Total Fees	\$ 3.9	\$ 3.7

* Consists solely of \$1,500 for research tools provided on a subscription basis.

¹ *Column only reflects fees billed by PricewaterhouseCoopers LLP, who served as our principal independent auditor during 2006.*

² *Column only reflects fees billed by KPMG LLP, who served as our principal independent auditor during 2005.*

Audit Fees primarily represent amounts for services related to the audit of our consolidated financial statements and internal control over financial reporting, a review of financial statements included in our Forms 10-Q (or other periodic reports or documents filed with the SEC), statutory or financial audits for our subsidiaries or affiliates, and consultations relating to financial accounting or reporting standards.

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Audit-Related Fees represent amounts for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements. These services include audits of employee benefit plans and consultations concerning matters relating to Section 404 of Sarbanes-Oxley. Tax Fees represent amounts for U.S. and international tax compliance services (including review of our federal, state, local and international tax returns), tax advice and tax planning. All of the tax fees paid in 2006 and 2005 relate to tax compliance services.

Approval Policy

All services rendered by our independent auditor are either specifically approved (including the annual financial statement audit) or are pre-approved by the Audit Committee in each instance in accordance with our Approval Policy for Independent Auditor Services (Approval Policy), and are monitored both as to spending level and work content by the Audit Committee to maintain the appropriate objectivity and independence of the independent auditor's core service, which is the audit of our consolidated financial statements. Under the Approval Policy, the terms and fees of annual audit services, and any changes thereto, must be approved by the Audit Committee. The Approval Policy also sets forth detailed pre-approved categories of other audit, audit-related, tax and other non-audit services that may be performed by our independent auditor during the fiscal year, subject to the dollar limitations set by the Audit Committee. The Audit Committee may, in accordance with the Approval Policy, delegate to any member of the Audit Committee the authority to approve audit and non-audit services to be performed by the independent auditor. The Audit Committee has delegated to the Chair of the Audit Committee the authority to approve audit and non-audit services if it is not practical to bring the matter before the full Audit Committee and the estimated fee does not exceed \$100,000. Any Audit Committee member who exercises his or her delegated authority, including the Chair, must report any approval decisions to the Audit Committee at its next scheduled meeting. All of the services provided in 2006 were approved by the Audit Committee in accordance with the Approval Policy.

The Board of Directors recommends a vote FOR ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditor.

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AUDIT COMMITTEE REPORT

The following report of the Audit Committee shall not be deemed to be soliciting material or to be filed with the SEC nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that Ryder System, Inc. specifically incorporates it by reference into a filing.

The Audit Committee of the Board of Directors of Ryder System, Inc. (Company) is comprised of six outside directors, all of whom are independent under the rules of the New York Stock Exchange and applicable rules of the Securities and Exchange Commission (SEC). The Committee operates under a written charter that specifies the Committee's responsibilities. The full text of the Committee's charter is available on the Corporate Governance page of the Company's website (www.ryder.com). The Audit Committee members are not auditors and their functions are not intended to duplicate or to certify the activities of management and the independent auditor.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. The Company's management has the responsibility for preparing the consolidated financial statements, for maintaining effective internal control over financial reporting, and for assessing the effectiveness of internal control over financial reporting. The Company's independent auditor is responsible for performing an audit of the Company's consolidated financial statements and internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), and expressing opinions on (i) whether the financial statements present fairly, in all material respects, the financial condition and results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States, (ii) whether the Company maintained effective internal control over financial reporting, and (iii) management's assessment of the effectiveness of the Company's internal control over financial reporting. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the audited consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and management's assessment of the effectiveness of internal control over financial reporting with Company management, including a discussion of the quality of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent auditor its judgments as to the quality of the Company's accounting principles and such other matters as are required to be discussed with the Committee by Statement on Auditing Standards No. 61, Communications with Audit Committees, as amended, PCAOB Standards, rules of the SEC, and other applicable regulations. In addition, the Committee has discussed with the independent auditor the firm's independence from Company management and the Company, including the matters required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and considered the compatibility of non-audit services with the independent auditor's independence.

The Committee discussed with the Company's internal auditor and the independent auditor the overall scope and plans for their respective audits. The Committee met with the internal auditor and the independent auditor, with and without management present, to discuss the results of their examinations; their evaluations of the Company's internal control, including internal control over financial reporting; and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, that the audited consolidated financial statements and management's assessment of the effectiveness of the Company's internal control over financial reporting be included in the Annual Report on Form 10-K for the year ended December 31, 2006 filed by the Company with the SEC. The Committee has also approved, subject to shareholder ratification, the selection of PricewaterhouseCoopers LLP as the Company's independent auditor.

Submitted by the Audit Committee of the Board of Directors.

Abbie J. Smith (Chair)

Daniel H. Mudd
Luis P. Nieto, Jr.
Eugene A. Renna
E. Follin Smith
Hansel E. Tookes, II

Table of Contents**SECURITY OWNERSHIP OF OFFICERS AND DIRECTORS**

The following table shows the number of shares of common stock beneficially owned as of January 8, 2007, by each director and each executive officer named in the Summary Compensation Table herein, individually, and all directors and executive officers as a group. No family relationships exist among our directors and executive officers.

Name of Beneficial Owner	Shares Beneficially Owned or Subject to Currently Exercisable Options	Shares Which May be Acquired Within 60 Days ¹	Total Shares Beneficially Owned ²	Percent of Class ³
Gregory T. Swienton	569,992 ^{4,5}	180,000	749,992	1.226%
John M. Berra	4,450 ⁶	4,785	9,235	*
David I. Fuente	27,224 ^{5,6}	6,618	33,842	*
Bobby J. Griffin	21,382 ⁴	19,334	40,716	*
L. Patrick Hassey	0	1,504	1,504	*
Mark T. Jamieson	0	0	0	*
Tracy A. Leinbach ⁷	0	0	0	*
Lynn M. Martin	13,333	11,503	24,836	*
Daniel H. Mudd	10,628 ⁶	5,325	15,953	*
Luis P. Nieto, Jr.	0	0	0	*
Vicki A. O Meara	63,280 ⁵	28,583	91,863	*
Eugene A. Renna	9,833	5,325	15,158	*
Abbie J. Smith	8,442 ^{5,6}	4,785	13,227	*
E. Follin Smith	396 ⁶	2,489	2,885	*
Anthony G. Tegnalia	9,464 ^{4,5}	24,582	34,046	*
Hansel E. Tookes, II	10,452 ^{4,6}	5,325	15,777	*
Christine A. Varney	17,846 ⁶	6,618	24,464	*
Directors and Executive Officers as a Group (22 persons)	826,625 ^{4,5,6}	379,066	1,205,691	1.971%

* Represents less than 1% of our outstanding common stock.

¹ Represents options to purchase shares which became exercisable between January 8, 2007 and March 9, 2007, shares of restricted stock that vested between January 8, 2007 and March 9, 2007, and restricted stock units held in the accounts of directors that vest upon the director's departure from the Board, which shares had the potential of vesting before March 9, 2007 if a director departed from the Board prior to that date.

² Unless otherwise noted, all shares included in this table are owned directly, with sole voting and dispositive power. Listing shares in this table shall not be construed as an admission that such shares are beneficially owned for purposes of Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

³ Percent of class has been computed in accordance with Rule 13d-3(d)(1) of the Exchange Act.

⁴ Includes shares held through a trust, jointly with their spouses or other family members or held solely by their spouses, as follows: Mr. Swienton, 14,500 shares; Mr. Griffin, 5,800 shares; Mr. Tegnalia, 3,288 shares;

Mr. Tookes, 1,000 shares; and all directors and executive officers as a group, 25,508 shares.

⁵ *Includes shares held in the accounts of executive officers pursuant to our 401(k) Plan and Deferred Compensation Plan and shares held in the accounts of directors pursuant to our Deferred Compensation Plan as follows:*

Mr. Swinton, 3,067 shares; Mr. Fuente, 1,480 shares; Ms. O Meara, 10,164 shares; Ms. A. Smith, 3,256 shares; and Mr. Tegnalia, 1,176 shares; and all directors and executive officers as a group, 35,135 shares.

⁶ *Includes stock granted to the director in lieu of his or her annual cash retainer which stock has vested but will not be delivered to the director until his or her departure from the Board.*

⁷ *Ms. Leinbach has not been an executive officer of ours since her resignation, effective March 1, 2006. Ms. Leinbach has no continuing obligation to publicly report transactions in our stock. Accordingly, the information reflected in this table is based solely on information included in our books and records as of January 8, 2007.*

Table of Contents**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who beneficially own more than 10% of a registered class of our equity securities, to file reports with the SEC relating to their common stock ownership and changes in such ownership. To our knowledge, based solely on our records and certain written representations received from our executive officers and directors, during the year ended December 31, 2006, all Section 16(a) filing requirements applicable to directors, executive officers, and greater than 10% shareholders were complied with on a timely basis.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table shows the number of shares of common stock held by all persons who are known by us to beneficially own or exercise voting or dispositive control over more than five percent of our outstanding common stock.

Name and Address	Number of Shares	Percent of Class
	Beneficially Owned	
Barclays Global Investors, NA 45 Fremont Street San Francisco, CA 94105	10,177,600 ¹	16.76%
LSV Asset Management 1 N. Wacker Drive, Suite 4000 Chicago, Illinois 60606	3,093,624 ²	5.09%

¹ Based upon the most recent SEC filing by Barclays Global Investors, NA on Form 13G dated January 31, 2007. Of the total shares shown, the nature of beneficial ownership is as follows: sole voting power 8,864,141; shared voting power 0; sole dispositive power 10,177,600; and shared dispositive power 0.

² Based upon the most recent SEC filing by LSV Asset Management on Form 13G dated February 12, 2007. Of the total shares shown, the nature of beneficial ownership is as follows: sole voting power, 3,093,624; shared voting power 0; sole dispositive power 3,093,624; and shared dispositive power 0.

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COMPENSATION DISCUSSION AND ANALYSIS

Compensation Objectives

Our goal is to design, implement and maintain an executive compensation program that accomplishes the following four key objectives. When we refer to our executive compensation program, we are referring to the compensation program for our CEO, CFO, three division presidents and four executive vice presidents (we refer to these nine officers as our executive officers). Our named executive officers are those executive officers named in the Summary Compensation Table on page 33.

Align the interests of executive officers and shareholders. It is critical that our executive officers always consider the interests of our shareholders when carrying out their duties as executives of our company. We believe the best way to accomplish this objective is through the use of variable, at-risk and goal-oriented compensation, equity compensation and stock ownership requirements.

Hire and retain executive talent. Ryder operates in three distinct industries—fleet management, supply chain/logistics and dedicated contract carriage—each of which are highly competitive and include elements of finance, transportation and engineering. Our ability to attract, retain and motivate high-quality executives who possess diverse skills and talent through competitive compensation programs is essential to our success in executing our long-term business strategies. We believe the best way to accomplish this objective is by providing competitive base salaries, attractive new hire pay packages and time-vested equity awards.

Emphasize and reward company performance. Executive compensation should reinforce both our short- and long-term business objectives. As employees progress into more senior positions within our organization, a greater portion of their compensation should be dependent on our overall performance, both in an absolute sense and relative to the market. We believe the best way to accomplish this objective is through an incentive compensation program that rewards significant improvement in our financial results and stock performance. The design and structure of incentive compensation programs should be clear, simple and easy to track so that executives can easily understand our expectations of them and how they are performing relative to those expectations.

Reward individual performance. An executive's individual compensation should vary based on the person's individual performance, contribution and value to Ryder. We believe the best way to accomplish this objective is by providing flexibility in our executive compensation programs to reward superior performance.

The Compensation Committee of our Board of Directors (Committee) regularly evaluates the effectiveness of our executive compensation programs, considering the cost to us and the value to the executive of each element of compensation, in light of the above stated compensation objectives. Our executive compensation program, as well as individual executive compensation packages, are designed to be market competitive and to reward executives for their (i) contributions to our overall short- and long-term performance, (ii) individual performance and (iii) commitment and loyalty to our company.

Significant Executive Compensation Actions Taken in 2006

During 2006, the Committee approved the following significant compensation actions:

Long-Term Incentive Program. After an in-depth review of our long-term incentive program, the Committee approved design changes to the program in 2006. Specifically, in 2006, our executive officers received stock options and three-year performance-based restricted stock rights (with tandem cash awards) rather than the long-term cash awards, stock options and time-vested restricted stock rights that had historically been granted to executive officers. Restricted stock rights represent the right to receive our common stock in the future to the extent the executive continues to be employed during the relevant vesting period. A detailed description of the changes is included in this Compensation Discussion and Analysis under Incentive Compensation.

Severance and Change of Control Programs. The Committee conducted a comprehensive review of our existing severance and change of control severance programs. As a result, in January 2007, the Board approved changes that

generally reduce the severance and change of control severance benefits payable to our officers (including our CEO and other executive officers). The changes became effective on January 1, 2007 for all new

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officers and will become effective on January 31, 2008 for all current officers. A detailed description of the changes can be found under the heading Potential Payments Upon Termination or Change of Control on page 39.

CFO Compensation Package. The Committee approved the compensation package for Mark Jamieson, our new Executive Vice President and Chief Financial Officer. Mr. Jamieson's initial annual base salary was set at \$475,000, which the Committee determined was appropriate for a company of our size and structure. This amount was consistent with market data and the salary paid to our previous Chief Financial Officer. Mr. Jamieson became eligible to participate in our annual incentive compensation plan with a potential plan payout for 2006 equal to the greater of the actual amount payable to him under the terms of the plan or \$275,000. Mr. Jamieson received a \$150,000 sign-on bonus to compensate him for forfeiting his bonus with his previous employer. He is also entitled to receive any executive perquisites and benefits generally available to our executive officers. Mr. Jamieson received an initial equity award consisting of 33,000 stock options and 9,150 time-vested restricted stock rights granted as of his first day of employment. The aggregate fair value of the equity granted to Mr. Jamieson was within the established guidelines for similarly-situated executive officers. The stock options and restricted stock rights vest on the third anniversary of the grant date. In addition, subject to certain conditions, the Committee agreed to reimburse Mr. Jamieson for certain documented relocation costs and expenses. The offer letter describing Mr. Jamieson's compensation package was filed with the SEC on a Current Report on Form 8-K on February 22, 2006.

Pension Plan Changes. During 2006, the Committee undertook a comprehensive review of our retirement program. As a result, in January 2007, our Board of Directors approved amendments to our retirement program. As a result of the changes, our U.S. pension plan and pension benefit restoration plan (excess pension plan) will be frozen effective December 31, 2007 for current participants who do not meet certain grandfathering criteria. Participants who are not entitled to continue earning benefits in the U.S. pension plan and excess pension plan will cease accruing further benefits under those plans after December 31, 2007 and will participate in an enhanced 401(k) plan and, if eligible, an enhanced deferred compensation plan. Those participants that meet the grandfathering criteria will be given the option to either continue to participate in the U.S. pension plan and excess pension plan or transition into the enhanced 401(k) plan and enhanced deferred compensation plan. All retirement benefits earned as of December 31, 2007 will be fully preserved and will be paid in accordance with the terms of the plans and legal requirements. Employees hired after January 1, 2007 will not be eligible to participate in the U.S. pension plan or the excess pension plan. The Committee believes the shift in emphasis from a traditional defined benefit plan to a defined contribution plan reflects the changing needs of today's workforce and will address certain of the challenges associated with traditional defined benefit plans, including volatility in defined benefit expense and funding requirements often caused by outside market factors; competitive factors; and recent changes in government pension regulations. A detailed description of our U.S. pension plan and excess pension plan and the recent changes approved by the Board is included in this proxy statement on page 36 under Pension Benefits.

Elements of our Executive Compensation Program

In 2006, our executive compensation program consisted of the following six elements:

- (1) ***base salary;***
- (2) ***incentive compensation*** which is comprised of (a) annual cash incentive awards, (b) cash earned under our discontinued cash-based long-term incentive plan, (c) time-vested stock options and (d) performance-based restricted stock rights (with tandem cash awards);
- (3) ***time-vested restricted stock rights;***
- (4) ***perquisites;***
- (5) ***benefits*** including welfare and retirement benefits; and
- (6) ***severance and change of control benefits.***

Our executive officers do not have employment agreements. They do have individual severance and change of control severance agreements which are described in more detail under Potential Payments Upon Termination or Change of Control.

We do not have formal policies relating to the allocation of total compensation among the various elements. However, both management and the Committee believe that the more senior the position an executive holds, the

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more influence they have over our financial performance. As such, a greater amount of their compensation should be at-risk based on company performance. For Mr. Swinton, over 75% of his total compensation in 2006 (as reflected in the Summary Compensation Table on page 33) was at-risk, performance-based compensation.

In February of each year (in connection with the conclusion of our business planning process), the Committee conducts its annual review of the compensation packages for each of our executive officers. Based on this review, the Committee approves (a) base salary changes, (b) any cash payout amounts earned under the previous year's annual cash incentive awards, (c) any amounts earned under our discontinued cash-based long-term incentive plan, (d) equity grants and (e) performance targets and potential payout amounts under any incentive compensation programs for the current year. The Committee may take other individual compensation actions during the year as needed.

In evaluating each element of our executive compensation program, the Committee considers the executive compensation program and practices as well as financial performance of comparative groups of companies. Management and the Committee view this data as one factor in making compensation decisions, but do not rely solely on this information.

We operate in three distinct and complex business segments. Although there are other public companies that operate in one or more of our business segments, we do not believe there are any public companies that provide similar fleet management services (which represents nearly 60% of our consolidated revenues) or that provide the same mix of services, and that publicly disclose financial performance and compensation data relating to that business that can be used for benchmarking purposes. As a result, we generally have not based our compensation decisions on the compensation practices of a particular peer group. When making compensation decisions, the Committee does compare our compensation information with compensation data compiled by management and outside consultants (at the request of the Committee) for companies that are included in the S&P 500 and that are of similar size (i.e., revenue of between \$5.5 billion and \$6.5 billion), scope (i.e., similar industries/global) and performance. Although the Committee and management consider this data, their compensation recommendations and decisions are not based on maintaining a certain target percentile within the comparative group(s).

Base Salary

The Committee sets an executive's base salary with the objective of hiring and retaining highly qualified executives for the relevant position and rewarding individual performance. When setting and adjusting individual executive salary levels, the Committee considers the relevant established salary range, the executive officer's responsibilities, experience, potential, individual performance, and contribution, and comparative data provided by outside compensation consultants. The Committee also considers other factors such as our overall corporate budget for annual merit increases, unique skills, demand in the labor market and succession planning.

In February 2006, Mr. Swinton received a 3% salary increase and the other named executive officers received a 1% to 2% salary increase. These increases were effective in April 2006 and were consistent with the budgeted annual merit increase for all eligible employees. The base salaries for certain of our executive officers had been increased in October 2005 in connection with promotions and based on compensation data provided by Mercer. Mr. Swinton's salary was not increased at that time.

Incentive Compensation

Our incentive compensation program is comprised of (a) annual cash incentive awards, (b) amounts earned under our discontinued cash-based long-term incentive plan, (c) time-vested stock option grants and (d) grants of performance-based restricted stock rights with tandem cash awards. We use incentive compensation to emphasize and reward the attainment of certain short-and long-term financial goals and, particularly with respect to incentive-based equity awards, align the interests of our executive officers and our shareholders.

Annual Cash Awards

Our annual cash incentive awards provide for payments to executive officers (as well as a significant number of our salaried employees) based on the achievement of certain levels of financial performance over one fiscal year.

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The Committee reviews the proposed performance metric(s) applicable to executive officers for the upcoming year in December and approves the performance targets and target payout amounts for executive officers in February of the performance year. The performance metrics and performance targets for our annual cash incentive awards are based on our internal business and strategic plan. There were no individual performance metrics for our executive officers. Our goal is to select performance metrics that provide a meaningful measure of our success in implementing our short-term business strategies.

Performance Metrics. The 2006 annual cash incentive awards for executive officers were driven by a combination of the following three performance metrics:

Operating revenue is our total revenue less fuel services revenue (net of inter-segment billings) in our fleet management solutions business segment and subcontracted transportation revenue in our supply chain solutions and dedicated contract carriage business segments. We believe net operating revenue is a better measure of our operating performance and sales activity than gross revenue because both fuel and subcontracted transportation are largely pass-throughs to customers and therefore have minimal impact on our profitability.

Earning per share is an effective measure commonly used by shareholders to assess a company's annual performance, and therefore, we think it is an appropriate measure on which to compensate our executives.

Return on capital measures capital efficiency across all business segments, which is critical to the success of capital-intensive businesses like ours.

We believe that these three performance metrics are useful in measuring our success in meeting our strategic objective of growing our business in a way that creates solid earnings leverage and earns an appropriate return on invested capital.

Performance Targets. As mentioned above, none of our direct competitors in fleet management, our largest business segment, publicly report their financial results or estimates relating to their fleet management business. In order to avoid compromising our competitive position, we do not disclose the weight given to each performance metric or the specific performance targets. The annual cash incentive awards are designed so that target performance equals the performance reflected in our internal business plan. In addition, the 2006 awards included a performance gate which required that the EPS threshold amount had to be met in order for the executive to receive a payout under the award. We believe the growth levels reflected in our 2006 internal business plan, and therefore reflected in our 2006 performance targets, were aggressive and difficult to achieve. The maximum performance targets require significantly better performance than our aggressive internal business plan and, therefore, are more difficult to achieve.

The Committee adjusts the EPS results on which payouts are determined in order to ensure that the payouts properly reflect the earnings growth in our core business and are not impacted by non-recurring or non-operational items. Specifically, the Committee adjusted 2006 EPS to eliminate the impact of pension-related benefits and charges and benefits related to tax law changes and a stock demutualization, all of which are discussed in our financial statements and periodic SEC filings. As a result, the EPS amount on which performance was measured was \$0.11 lower than reported EPS, which resulted in a reduced payout under the awards.

Target Payout Amount. The awards provide for a threshold payout amount (equal to 25% of the target payout amount) if we meet the threshold performance targets, a target payout amount if we meet target performance and a maximum payout amount (equal to two times the target payout amount) if we meet the maximum performance targets. For 2006, the target payout amount for all executive officers (other than our CEO) was 75% of base salary. The target payout for our CEO was 100% of base salary. These target payout amounts are designed to motivate our executive officers to act in a way that will result in us achieving significantly better year over year financial performance. For 2006, the award payouts were 98.95% of target payout. The actual payout amounts for the named executive officers for 2006 are set forth under *Non-Equity Incentive Plan Compensation* in the Summary Compensation Table on page 33.

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In February 2007, the Committee approved the performance metrics, performance targets and potential payout amounts for the 2007 annual cash incentive awards. The Committee determined to maintain the same three performance metrics (operating revenue, EPS and return on capital). The target payout amounts for all executive officers will continue at 75% of base salary (100% for the CEO) and the threshold and maximum payout amounts will also remain unchanged from 2006.

Long-Term Cash Awards**Cash Awards Granted from 2002 - 2004**

In 2002, we adopted a long-term incentive plan (Cash LTIP) for executive officers which included a performance-based cash component. The cash component of the plan was designed to reward executive officers with additional cash compensation contingent upon achieving certain performance targets during a three-year performance cycle.

Long-term cash awards under the Cash LTIP were awarded in 2002, 2003 and 2004. Each award includes a three-year performance cycle. Each three-year performance cycle is comprised of three one-year performance periods. Amounts earned in each annual performance period are deposited into an investment account for the executive officer. The executive officer directs the investment of the earned amounts from a list of investment options (including Ryder stock) during the forfeiture period. These annual earned amounts (and related investment earnings) vest and are paid to the executive in two installments on the six- and eighteen- month anniversaries of the end of each three-year performance cycle. No long-term cash awards have been granted under the Cash LTIP since February 2004 and therefore 2006 is the last year in which amounts can be earned under that plan. Payments of previously earned amounts will be made upon vesting through July 2008.

Performance Metric. The performance metric for all performance periods under the Cash LTIP was economic value-added (EVA), which is a measure that was used and reported on by each of our business segments from 2002 to 2004. EVA is net earnings less our required return on our equity capital. EVA is a useful performance metric because it measures efficient use of capital, which is critical to the success of our business model.

Performance Targets. We do not disclose the EVA performance targets for these awards as we believe disclosing this information will put us at a competitive disadvantage. As with the performance targets for our annual cash awards, the performance targets for the awards under this plan were also derived from our internal business plan. The annual performance targets for the three-year performance cycle were set at the beginning of the three-year cycle. Although these targets were set to reward significant improvement in EVA over the three-year period, a significant increase in EVA in the first or second year of the plan cycle or unexpected changes in economic or business conditions could make it more probable that we will meet our targets for the third year of the three-year performance cycle.

Target Payout Amounts. The target payout amount for the 2004-2006 performance cycle was 75% of base salary (as of the end of 2004) for all named executive officers (150% for our CEO). For 2006, the named executive officers (other than Mr. Jamieson, who was not employed with us in 2004) earned a 200% payout for the 2006 performance period of the 2004-2006 performance cycle. Amounts earned by the named executive officers are included in the Summary Compensation Table on page 33 in the Non-Equity Incentive Plan Compensation column.

Cash Awards Granted in 2005

Although having a three-year performance cycle and a forfeiture feature in the cash awards issued under the Cash LTIP encourages executive officers to remain employed with us, the annual performance periods rewarded short-term performance rather than long-term performance. In 2005, the Committee determined that a greater portion of an executive officer's compensation should be contingent on long-term performance. As a result, in May 2005, the Committee granted long-term cash awards to our executive officers that provide cash compensation for achieving certain levels of operating revenue growth, earning per share growth and return on capital during the period from April 1, 2005 through December 31, 2007. Any amounts earned under the awards will be paid in June 2008. The target payout amount for all

executive officers is 75% of base salary (other than our CEO, whose target payout amount is 150% of base salary). The awards provide for a threshold payout amount (equal to 25% of the target payout amount) if we meet the threshold performance targets and a maximum payout amount (equal to two times the target payout amount) if we meet the maximum performance targets.

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In February 2006, the Committee decided to allocate more of our executive officer's long-term compensation from cash to equity. As a result, the Committee ceased granting long-term cash awards and instead granted performance-based restricted stock rights with tandem cash awards, which are described in more detail below under Stock Options and Performance-Based Restricted Stock Rights.

Stock Options and Performance-Based Restricted Stock Rights**2006 Grants**

In February 2006, the Committee approved grants of stock options and performance-based restricted stock rights with tandem cash awards to our executive officers. The Committee believes granting stock options and performance-based restricted stock rights to our executive officers encourages the creation of long-term value for our shareholders and promotes employee retention and stock ownership, all of which serve our overall compensation objectives.

The stock options were issued at the average of the high and low sales price of our common stock as reported by the NYSE on the day the Committee (or the Board in the case of the CEO grant) approved the grant. The stock options vest in three equal annual installments and expire seven years from the grant date. The stock options only have value to the extent our stock price increases over the term of the option. The performance-based restricted stock rights will vest on December 31, 2008 if Ryder's total shareholder return (generally the change in Ryder's stock price over the performance period plus dividends paid) meets or exceeds the median total shareholder return of the companies in the S&P 500 over the three-year period from January 1, 2006 to December 31, 2008. The restricted stock rights entitle the executive officer to receive dividend equivalents and include a tandem cash award. Specifically, if the restricted stock rights vest, the executive officer will also receive an amount of cash that is expected to approximate the amount of the executive officer's tax liability relating to the vesting of the restricted stock rights. This design was adopted to encourage share ownership and minimize shareholder dilution. The Committee believes total shareholder return is an appropriate performance metric because it assesses whether management is focusing its efforts on the fundamental drivers of shareholder value. Given the difficulty in identifying a suitable peer group for our company, the Committee selected the S&P 500 as the comparable group because it is a broad-based, widely-used index.

The combination of stock options and performance-based restricted stock rights (with tandem cash awards) granted in February 2006 to executive officers (other than Mr. Swinton) was expected to deliver an aggregate target value equal to 175% of the midpoint of the relevant salary range for the executive's management level, with 45% of the value being delivered in stock options, 35% being delivered in performance-based restricted stock rights and 20% being delivered through the tandem cash award. These values were converted into an equivalent number of shares based on the fair value of the stock options (using a Black-Scholes pricing model) and on the intrinsic value of the performance-based restricted stock rights. With respect to grants to our executive officers, other than Mr. Swinton, these shares were placed in a pool and were allocated and awarded to our executive officers by the Committee (based on recommendations made by Mr. Swinton). In determining the aggregate value of stock options and performance-based restricted stock rights (with tandem cash awards) to grant to executive officers, the Committee considered our performance, competitive practices, the cost to us (particularly in light of the new stock option expensing rules) and share dilution. In determining amounts to allocate to each executive officer, the Committee considered their individual responsibilities, performance evaluation, and long-term initiatives. The grant date fair value of the equity granted to the named executive officers in 2006 is set forth in the 2006 Grant of Plan-Based Awards Table on page 34.

In February 2006, our independent directors approved a grant to Mr. Swinton of 175,000 stock options and 20,000 performance-based restricted stock rights (with a \$500,000 tandem cash award). The aggregate value of the stock options and performance-based restricted stock rights exceeded the target value of 350% of the midpoint of the relevant salary range. The Committee exceeded the target value for Mr. Swinton in order to reward him for our strong financial performance and recognize his continued efforts to improve our financial position and execute our long-term strategies. The equity granted to

Mr. Swinton in 2006 was consistent with the equity granted to him in 2005.

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No equity awards were granted to Tracy Leinbach, our former Chief Financial Officer, in February 2006 because she had previously announced her intention to retire. In October 2005, in consideration for Ms. Leinbach's remaining with us through the filing of our annual report, the Committee approved an amendment to her vested stock options to extend the post-termination exercise period from 90 days after termination to December 31, 2006.

Equity Granting Practices

In February 2007, the Committee approved a Policy on Equity Granting Practices. Pursuant to this Policy, all grants of equity awards to executive officers must be approved by the Compensation Committee, or the full Board in the case of our CEO, at a Board or Committee meeting and not by written consent. The grant date of any equity awards shall be the date of the Board or Committee meeting at which the award was approved, provided that the grant date for a new hire will be the later of (i) the date of the Board or Committee meeting at which the award was approved and (ii) the date on which the new hire commences his employment. The exercise price of any stock option issued by us will be the average of the high and low sales price on the grant date (as required by our current equity compensation plans).

Time-Vested Restricted Stock Rights

For the last several years, the Committee has approved annual grants of time-vested restricted stock rights to executive officers. Generally, the restricted stock rights vest in three equal annual installments regardless of company performance. As discussed above, in 2006, the Committee granted performance-based restricted stock rights with tandem cash awards in lieu of the time-vested restricted stock rights as the Committee believes that performance-based restricted stock rights are more consistent with its compensation objectives. The time-vested restricted stock rights include a right to receive dividend equivalents.

The Committee approved a retention grant of time-vested restricted stock rights to certain key executive officers in October 2006 (none of whom were named executive officers). In addition, the Committee granted 9,150 time-vested restricted stock rights to Mr. Jamieson as part of an appropriate new hire pay package for our Chief Financial Officer.

Perquisites

The Committee prefers to compensate our executive officers in cash and equity rather than with perquisites. However, we do provide a limited number of perquisites to our executive officers that we believe are related to the performance of their responsibilities. Each executive officer receives an annual car allowance equal to \$9,600 per year. Given the complex structure of certain elements of our compensation, we reimburse our executives for up to \$6,000 per year for amounts paid by the executive for financial planning and tax preparation services. We also provide an annual executive perquisite of \$5,000 for all executive officers and \$7,500 for our CEO (plus a tax gross-up) that is designed to provide the executive with an amount of money that can be used by him or her to pay for community, business or social activities that may be indirectly related to the performance of the executive's duties but are not otherwise eligible for reimbursement as direct business expenses. For security reasons, we provide up to \$5,000 for the installation of a new or upgraded security system in the executive's home and pay any related monthly monitoring fees. Certain of our named executive officers also receive a country club membership for which there is no incremental cost to us. The total amount of perquisites paid to the named executive officers during 2006 was only a small percentage of each executive's total compensation. These amounts are set forth in the Summary Compensation Table on page 33 under the "Other Compensation" column and related footnotes.

Benefits

During 2006, executive officers were eligible for the following programs offered to all U.S. salaried employees: qualified pension plan, pension benefit restoration plan (excess pension plan), 401(k) savings plan (including company contribution based on company performance), medical, dental and prescription coverage, company-paid short- and long-term disability insurance, and paid vacation and holidays.

Table of Contents**Welfare Benefits**

All officers, including executive officers, receive certain additional welfare benefits not available to all salaried employees. We provide executive life insurance coverage equal to three times the executive's current base salary in lieu of the standard company-paid term life insurance; provided that executive officers are limited to an aggregate of \$3 million in life insurance coverage under the policy. We also purchase individual supplemental long-term disability insurance policies for each executive officer, which provides up to \$15,000 per month in additional coverage over the \$8,000 per month maximum provided under our group long-term disability plan.

Retirement Benefits

401(k)/ Deferred Compensation Plan. We maintain a tax-qualified 401(k) plan that provides for broad-based employee participation and a deferred compensation plan for certain employees, including the named executive officers. Company contributions to our current 401(k) plan are limited to a discretionary company contribution based on company performance. Under the deferred compensation plan, eligible participants may elect to defer receipt of their cash compensation (which includes salary, bonus and amounts earned under our cash-based long-term incentive plan). Any deferred amounts are unfunded and unsecured obligations of the company and are part of our general assets. Contributions to the 401(k) and deferred compensation plans are credited with hypothetical earnings based on hypothetical investment options selected by the employee, including Ryder common stock. Our current deferred compensation plan does not provide for company contributions or above-market or preferential earnings. Our previous deferred compensation plan, in which one of our named executive officers currently participates, entitles all participants to received interest on deferred amounts at a rate equal to the average annual base (prime) rate, with a minimum of 5% and a maximum of 12%. Under each deferred compensation plan, the compensation may be deferred until the later to occur of a fixed date, or separation of employment due to retirement, disability or removal, and is payable in a lump sum or in installments. Upon a change of control, however, all deferred amounts will be paid immediately in a lump sum.

Pension Plan. A description of our pension plan and excess pension plan is set forth in this proxy statement under Pension Benefits on page 36. In January 2007, our Board of Directors approved amendments to our pension and excess pension plans, our 401(k) plan and our deferred compensation plan. These changes are also described in this proxy statement under Pension Benefits.

Severance and Change of Control Benefits

Currently, all officers (including all executive officers) are entitled to certain severance benefits under the terms of a Severance Agreement and a Change of Control Severance Agreement, forms of which are on file with the SEC. Severance benefits are intended to ease the consequences of an unexpected termination of employment and give the executive an opportunity to find another job, which for senior executives can take a significant amount of time. The change of control benefits are designed to preserve productivity, avoid disruption and prevent attrition during a period when we are, or are rumored to be, involved in a change of control transaction. The change of control severance program also motivates executives to pursue transactions that are in our shareholders' best interests notwithstanding the potential negative impact of the transaction on their future employment.

In January 2007, based on the results of the Committee's comprehensive evaluation of our severance and change of control severance programs and practices, our Board of Directors (based on the recommendations of the Committee) decided to terminate all existing severance and change of control severance agreements and adopt a new program that would reflect a number of changes to the current severance and change of control severance benefits. Although the Committee and management determined that our current severance and change of control benefits are reasonable, they believe the approved changes are more in line with current market standards and emerging governance trends. A description of the current severance and change of control severance benefits (which will be in effect for all current executive officers until January 31, 2008) and the recently approved changes to the severance and change of control severance benefits (which will be in effect for all current executive officers beginning

after January 31, 2008 and for all new executive officers appointed after January 1, 2007) as well as a summary of potential payments relating to these and other termination events, can be found under the heading Potential Payments Upon Termination or Change of Control on page 39.

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Stock Ownership Requirements

To demonstrate the importance of linking executive management and shareholder interests, we established formal stock ownership requirements for all of our officers. The CEO must own company stock or stock equivalents (including any unvested restricted stock rights) having a value equal to at least two times his annual base salary, and all other officers must own company stock or stock equivalents having a value equal to at least one times their base salary. The ownership requirements must be proportionately satisfied within five years of being appointed an officer. As of December 31, 2006, all executive officers were in compliance with their stock ownership requirements.

Tax and Accounting Implications

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended, precludes public companies from taking a federal income tax deduction for compensation in excess of \$1 million paid to our named executive officers unless certain specific and detailed criteria are met, including the requirement that compensation be performance-based and under a plan approved by our shareholders.

We review all components of our executive compensation program based upon the requirements of Section 162(m) of the Internal Revenue Code. Stock-based awards under our current equity compensation plan meet the requirements of Section 162(m), and accordingly, stock options and other stock-based awards granted to the named executive officers under this plan are eligible for the performance-based exception to Section 162(m). Our 2006 annual cash incentive awards were granted under the Ryder System, Inc. 2005 Equity Compensation Plan, which was approved by our shareholders in May 2005. While the long-term cash incentive awards granted from 2002 to 2004 are performance-based, the relevant plan was not submitted to our shareholders for their approval and, therefore, we will not be able to deduct amounts paid under those awards in calculating our taxes.

The Committee believes that preserving its flexibility in awarding compensation is in our best interest and that of our shareholders and may determine, in light of all applicable circumstances, to award compensation in a manner that will not preserve the deductibility of such compensation under Section 162(m).

Nonqualified Deferred Compensation

On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law, changing the tax rules applicable to nonqualified deferred compensation arrangements. While the final regulations are not yet effective, we believe we are operating in good faith compliance with statutory provisions that were effective on January 1, 2005. When the regulations are finalized, we will assess the impact on our compensation programs and make appropriate amendments.

Accounting for Share-Based Compensation

Beginning on January 1, 2006, we began accounting for share-based compensation awards, including our stock options and all restricted stock rights, in accordance with the requirements of FASB Statement 123R, Share-Based Payments. Before we grant stock-based compensation awards, we consider the accounting impact of the award as structured and under various other scenarios in order to analyze the expected impact of the award.

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COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The following report of the Compensation Committee shall not be deemed to be soliciting material or to be filed with the SEC nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that Ryder System, Inc. specifically incorporates it by reference into a filing.

Our Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with management. Based on our review and discussions, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee of the Board of Directors.

John M. Berra (Chair)

David I. Fuente

L. Patrick Hassey

Lynn M. Martin

Christine A. Varney

Table of Contents**EXECUTIVE COMPENSATION**

The following table sets forth the 2006 compensation for:

our chief executive officer;

each person who served as our chief financial officer during 2006; and

the three other most highly compensated executive officers serving as executive officers at the end of 2006 (based on total compensation (as reflected in the table below) reduced by the amounts in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column).

We refer to the executive officers included in the Summary Compensation Table as our named executive officers. A detailed description of the plans and programs under which our named executive officers received the following compensation can be found in the Compensation Discussion and Analysis beginning on page 23.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) ¹	Option Awards (\$) ²	Incentive Plan Compensation (\$) ³	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$) ⁵	Total (\$)
							(\$) ⁴		
Gregory T. Wienton Chairman and Chief Executive Officer	2006	843,750	0	723,165	1,271,629	1,744,716	254,742	60,708	4,898,711
Mark T. Jamieson ⁶ Executive Vice President and Chief Financial Officer	2006	395,833	150,000 ⁷	112,869	107,591	295,522	0	247,440	1,309,255
Tracy A. Weinbach ⁶ Former Executive Vice President and Chief Financial Officer	2006	81,500	91,927 ⁸	0	0	0	24,537	346	198,310

cki A. Meara	President U.S. Supply Chain Solutions	2006	490,250	0	318,523	306,219	624,088	82,197	29,830	1,851,10
hony G. egnalia	President U.S. Fleet Management Solutions	2006	430,250	0	264,478	228,534	552,717	186,208	34,364	1,696,55
obby J. riffin	President International Operations	2006	348,875	0	157,016	133,904	454,214	108,249	35,328	1,237,58

¹ Stock awards consist of time-vested restricted stock rights and performance-based restricted stock rights. The amounts in this column do not reflect compensation actually received by the named executive officer nor do they reflect the actual value that will be recognized by the named executive officer. Instead, the amounts reflect the compensation cost recognized by us in fiscal year 2006 for financial statement reporting purposes in accordance with SFAS 123R for stock awards granted in and prior to 2006. The full grant date fair value of stock awards granted in 2006 is reflected in the 2006 Grants of Plan-Based Awards table. For information regarding the assumptions made in calculating the amounts reflected in this column, see the section entitled "Share-Based Compensation Fair Value Assumptions" in note 22 to our audited consolidated financial statements for the year ended December 31, 2006, included in our Annual Report on Form 10-K for the year ended December 31, 2006. Dividend equivalents are paid on all restricted stock rights. The dividend equivalents are factored into the compensation cost recognized for financial statement reporting purposes.

² The amounts in this column do not reflect compensation actually received by the named executive officer nor do they reflect the actual value that will be recognized by the named executive officer. Instead the amounts reflect the compensation cost recognized by us in fiscal year 2006 for financial statement reporting purposes in accordance with SFAS 123R for stock options granted in and prior to 2006. The full grant date fair value of stock options granted in 2006, determined using the Black Scholes pricing model, is reflected in the 2006 Grants of Plan-Based Awards table. For information regarding the assumptions made in determining the value under the Black Scholes pricing model, see the section entitled "Share-Based Compensation Fair Value Assumptions" in note 22 to our audited consolidated financial statements for the year ended December 31, 2006, included in our Annual Report on Form 10-K for the year ended December 31, 2006.

³ The amounts in this column represent (i) amounts earned in 2006 under the 2006 annual cash incentive awards (which amounts were paid in February 2007), (ii) amounts earned in 2006 under our cash-based long-term incentive plan (Cash LTIP) for the 2004-2006 performance cycle, and (iii) earnings on amounts earned in previous years but not yet paid under our Cash LTIP, as follows:

	2006 Annual Cash Incentive Awards(\$)	Amounts Earned in 2006 Under Cash LTIP(\$)	Earnings on Amounts Earned But Unpaid Under Cash LTIP(\$)
Gregory T. Swienton	834,958	685,082	224,676

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<i>Mark T. Jamieson</i>	<i>295,522</i>	<i>0</i>	<i>0</i>
<i>Tracy A. Leinbach</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Vicki A. O Meara</i>	<i>363,827</i>	<i>225,290</i>	<i>34,971</i>
<i>Anthony G. Tegnalia</i>	<i>319,311</i>	<i>170,049</i>	<i>63,357</i>
<i>Bobby J. Griffin</i>	<i>258,915</i>	<i>168,499</i>	<i>26,800</i>

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⁴ The amounts in this column include an estimate of the increase in the actuarial present value of the accrued pension benefits (under both our pension and excess pension plans) for the named executive officer for 2006. Assumptions used to calculate these amounts are described under *Pension Benefits* on page 36. With respect to Mr. Griffin, the amount in this column also includes above-market earnings on deferred compensation of \$184. No other named executive officer realized above-market or preferential earnings on deferred compensation.

⁵ All Other Compensation for 2006 includes the following payments or accruals for each named executive officer:

	Employer Contributions to the 401(k) Plan(\$)	Premiums Paid Under the Supplemental Long-Term Disability Insurance Plan(\$)	Premiums Paid for Executive Life Insurance(\$)	Charitable Awards Programs(\$)	Perquisites(\$) ^{(b)(c)}	Tax Gross-up(\$) ^(d)
Gregory T. Swienton	3,124	8,171	3,584	17,639	23,888	4,302
Mark T. Jamieson	0	2,710	1,682	0	189,030	54,018
Tracy A. Leinbach	0	0	346	0	0	0
Vicki A. O Meara	0	6,483	2,083	0	18,396	2,868
Anthony G. Tegnalia	3,124	5,944	1,828	0	20,600	2,868
Bobby J. Griffin	3,124	7,175	1,482	0	20,679	2,868

^(a) As Chairman of the Board, Mr. Swienton participates in the Company's Matching Gifts to Education Program and Directors' Charitable Award Program both of which are described under *Director Compensation* on page 44. The amount in this column reflects (i) \$10,000 in benefits under the Company's Matching Gifts to Education program and (ii) \$7,639 in insurance premium payments in connection with the Directors' Charitable Award Program.

^(b) Includes, for each executive, a car allowance, a financial planning and tax preparation allowance, an executive allowance, and amounts paid in connection with the executive's home security system. The value reflected in this column reflects the aggregate incremental cost to us of providing each perquisite to the executive. Certain named executive officers also receive a country club membership for which there is no incremental cost to us.

^(c) For Mr. Jamieson, includes relocation assistance of \$171,863.

^(d) Includes a tax gross-up on the executive perquisite and, with respect to Mr. Jamieson, a tax gross-up on certain relocation assistance payments.

⁶ Ms. Leinbach resigned as our Chief Financial Officer effective March 1, 2006. Mr. Jamieson became our Chief Financial Officer as of March 6, 2006.

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Mr. Jamieson received a cash sign-on bonus of \$150,000 in connection with his appointment as Chief Financial Officer.

⁸ This amount reflects a cash payment made to Ms. Leinbach as compensation for her remaining with us until the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

2006 Grants of Plan-Based Awards

Name	Grant Date	Approval Date	Threshold (\$)	Target (\$)	Maximum (\$)	Target (#)	Estimated Future Payouts Under Equity			Grant Date Fair Value of Stock and Option Award (\$) ⁶
							Incentive Plan Awards ²	All Other Stock Awards: Number of Shares of Stock or Units ³	All Other Option Awards: Number of Securities Underlying Awards ⁴		Exercise or Base Price of Option ($/Sh)^{5}
Gregory T. Swienton			210,959	843,836	1,687,672					
	2/13/06			500,000		20,000				511,846
	2/13/06							175,000	42.73	1,846,023
Mark T. Jamieson			74,666	298,664	597,328					
	3/6/06 ⁷	2/13/07 ⁷					9,150			411,293
	3/6/06 ⁷	2/13/07 ⁷						33,000	44.95	392,103
Tracy A. Leinbach ⁸										
Vicki A. O Meara			91,924	367,695	735,390					
	2/13/06			134,286		5,300				135,639
	2/13/06							26,500	42.73	279,541
Anthony G. Tegnolia			80,676	322,705	645,410					
	2/13/06			148,572		5,900				150,995
	2/13/06							30,000	42.73	316,461

Bobby J. Griffin		65,417	261,668	523,336			
	2/13/06		102,857	4,100			104,928
	2/13/06				20,000	42.73	210,974

¹ These columns reflect the range of payouts under the 2006 annual cash incentive awards granted under the Ryder System, Inc. 2005 Equity Compensation Plan. Amounts actually earned in 2006 are reported as Non-Equity Incentive Plan Compensation in the Summary Compensation Table. The Target column also includes the tandem cash portion of the performance-based restricted stock rights granted in 2006. For a more detailed description of the annual cash awards, see the section entitled Annual Cash Awards in the Compensation Discussion and Analysis. For a detailed description of the tandem cash award, see Stock Options and Performance-Based Restricted Stock Rights in the Compensation Discussion and Analysis.

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- ² *This column reflects the target payout under the performance-based restricted stock rights granted in 2006 under the Ryder System, Inc. 2005 Equity Compensation Plan. The performance-based restricted stock rights will payout at target only if our total shareholder return for the three-year period ending on December 31, 2008 meets or exceeds the median total shareholder return of the companies in the S&P 500 over the same period, as discussed in further detail under the heading "Stock Options and Performance-Based Restricted Stock Rights" in the Compensation Discussion and Analysis. There is no threshold or maximum payout. The performance-based restricted stock rights are entitled to receive dividend equivalents.*
- ³ *Represents time-based restricted stock rights granted to Mr. Jamieson under the Ryder System, Inc. 2005 Equity Compensation Plan when he was hired. The restricted stock rights are entitled to receive dividend equivalents.*
- ⁴ *Represents stock options granted under the Ryder System, Inc. 2005 Equity Compensation Plan. The stock options for all of the named executive officers (except for Mr. Jamieson) vest in three equal annual installments beginning on February 13, 2007. Mr. Jamieson's options vest on March 6, 2009, the third anniversary of the grant date. For a more detailed description of our stock options and stock option granting policies, see the section entitled "Stock Options and Performance-Based Restricted Stock Rights" in the Compensation Discussion and Analysis.*
- ⁵ *The exercise price of the stock options granted in 2006 were set as the average of the high and the low sales prices of our common stock on the grant day as required under the Ryder System, Inc. 2005 Equity Compensation Plan. The closing stock price of our common stock was \$42.55 on February 13, 2006 and \$44.68 on March 6, 2006.*
- ⁶ *The grant date fair value of the stock and option awards is determined pursuant to SFAS 123R and represents the total amount that we will expense in our financial statements over the relevant vesting period. For information regarding the assumptions made in calculating the amounts reflected in this column, see the section entitled "Share-Based Compensation Fair Value Assumptions" in note 22 to our audited consolidated financial statements for the year ended December 31, 2006, included in our Annual Report on Form 10-K for the year ended December 31, 2006.*
- ⁷ *Mr. Jamieson's equity awards were approved at the February 13, 2006 Compensation Committee meeting with our annual equity grants. His equity awards were granted and priced as of March 6, 2006, his first day of employment.*
- ⁸ *Ms. Leinbach announced her intent to resign from the Company in August 2005 and therefore did not receive any Plan-based awards in 2006.*

Outstanding Equity Awards as of December 31, 2006

Increase in partners' capital
related to reallocation of
ownership interest in Carlyle
Holdings

\$
40.5

\$
10.7

Increase to partners' capital from acquisition of non-controlling interests in consolidated entities

\$
—

\$
3.9

Non-cash contributions from non-controlling interest holders

\$
5.8

\$
5.4

Non-cash distributions to non-controlling interest holders

\$
—

\$
3.2

Tax effect from acquisition of Carlyle Holdings partnership units:

Deferred tax asset

\$
73.5

\$
—

Tax receivable agreement liability

\$
63.1

\$
—

Total partners' capital

\$
10.4

\$
—

See accompanying notes.

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The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. Organization and Basis of Presentation

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

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

Basis of Presentation

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

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

March 2014 Public Offering of Partnership Common Units

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

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

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

of approximately \$116.8 million. This dilution was reflected within partners' capital as a reallocation from partners' capital to non-controlling interests in Carlyle Holdings.

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

Acquisition-date fair value of consideration transferred:

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

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

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

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

Following the issuance of common units from the March 2014 public offering, the issuance of common units for the acquisition of Diversified Global Asset Management Corporation ("DGAM", see Note 3) and the vesting of deferred restricted common units, the total number of Partnership common units outstanding as of September 30, 2014 was 67,369,854 common units.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

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

In February 2010, Accounting Standards Update (“ASU”) No. 2010-10, “Amendments for Certain Investment Funds,” was issued. This ASU defers the application of the revised consolidation rules for a reporting enterprise’s interest in an entity if certain conditions are met, including if the entity has the attributes of an investment company and is not a securitization or asset-backed financing entity. An entity that qualifies for the deferral will continue to be assessed for consolidation under the overall guidance on VIEs, before its amendment, and other applicable consolidation guidance. As of September 30, 2014, assets and liabilities of consolidated VIEs reflected in the condensed consolidated balance sheets were \$25.5 billion and \$18.1 billion, respectively. Except to the extent of the assets of the VIEs which are consolidated, the holders of the consolidated VIEs’ liabilities generally do not have recourse to the Partnership. The assets and liabilities of the consolidated VIEs that are Consolidated Funds are comprised primarily of investments and loans payable, respectively.

The loans payable issued by the CLOs are backed by diversified collateral asset portfolios consisting primarily of loans or structured debt. In exchange for managing the collateral for the CLOs, the Partnership earns investment management fees, including in some cases subordinated management fees and contingent incentive fees. In cases where the Partnership consolidates the CLOs, those management fees have been eliminated as intercompany transactions. As of September 30, 2014, the Partnership held \$100.1 million of investments in these CLOs which represent its maximum risk of loss. The Partnership’s investments in these CLOs are generally subordinated to other interests in the entities and entitle the Partnership to receive a pro rata portion of the residual cash flows, if any, from the entities. Investors in the CLOs have no recourse against the Partnership for any losses sustained in the CLO structure.

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

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Investments in Unconsolidated Variable Interest Entities

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

	As of	
	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Investments	\$501.0	\$364.8
Receivables	3.5	132.4
Maximum Exposure to Loss	\$504.5	\$497.2

Basis of Accounting

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

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

Use of Estimates

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

Business Combinations

The Partnership accounts for business combinations using the acquisition method of accounting, under which the purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. Contingent consideration obligations that are elements of

consideration transferred are recognized as of the acquisition date as part of the fair value transferred in exchange for the acquired business. Acquisition-related costs incurred in connection with a business combination are expensed.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Revenue Recognition

Fund Management Fees

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

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

For certain global market strategies funds, management fees are calculated based on assets under management of the funds with generally lower fee rates. Hedge funds typically pay management fees quarterly that generally range from 1.5% to 2.0% of NAV per year. The mutual fund will generally pay management fees of 0.75% per year of daily net asset value. Management fees for the business development companies are due quarterly in arrears at annual rates that range from 0.25% to 1.00% of gross assets, excluding cash and cash equivalents. Management fees for the CLOs and other structured products typically range from 0.15% to 1.00% on the total par amount of assets or the aggregate principal amount of the notes in the CLO and are due quarterly or semi-annually based on the terms and recognized over the respective period. Management fees for the CLOs/structured products and credit opportunities are governed by indentures and collateral management agreements. The Partnership will receive management fees for the CLOs until redemption of the securities issued by the CLOs, which is generally five to ten years after issuance. Open-ended funds typically do not have stated termination dates.

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

The Partnership also provides transaction advisory and portfolio advisory services to the Portfolio Companies, and where covered by separate contractual agreements, recognizes fees for these services when the service has been provided and collection is reasonably assured. Fund management fees includes transaction and portfolio advisory fees of \$21.9 million and \$10.9 million for the three months ended September 30, 2014 and 2013, respectively, and \$62.1 million and \$38.4 million for the nine months ended September 30, 2014 and 2013, respectively, net of any offsets as defined in the respective partnership agreements.

Performance Fees

Performance fees consist principally of the allocation of profits from certain of the funds to which the Partnership is entitled (commonly known as carried interest). The Partnership is generally entitled to a 20% allocation (or 10% to 20% on external coinvestment vehicles, with some earning no carried interest, or approximately 2% to 10% in the case of most of the Partnership's fund of funds vehicles) of the net realized income or gain as a carried interest after returning the invested capital, the allocation of preferred returns of generally 8% to 9% and return of certain fund costs (generally subject to catch-up provisions as set forth in the fund limited partnership agreement) from its corporate private equity and real assets funds and closed-end carry funds in the global market strategies segment. Carried interest is recognized upon appreciation of the funds' investment values above certain return hurdles set forth in each respective partnership agreement. The Partnership recognizes

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revenues attributable to performance fees based upon the amount that would be due pursuant to the fund partnership agreement at each period end as if the funds were terminated at that date. Accordingly, the amount recognized as performance fees reflects the Partnership's share of the gains and losses of the associated funds' underlying investments measured at their then-current fair values. Because of the inherent uncertainty, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and it is reasonably possible that the difference could be material.

Carried interest is ultimately realized when: (i) an underlying investment is profitably disposed of, (ii) certain costs borne by the limited partner investors have been reimbursed, (iii) the fund's cumulative returns are in excess of the preferred return and (iv) the Partnership has decided to collect carry rather than return additional capital to limited partner investors. Realized carried interest may be required to be returned by the Partnership in future periods if the funds' investment values decline below certain levels. When the fair value of a fund's investments remains constant or falls below certain return hurdles, previously recognized performance fees are reversed. In all cases, each fund is considered separately in this regard, and for a given fund, performance fees can never be negative over the life of a fund. If upon a hypothetical liquidation of a fund's investments at their then-current fair values, previously recognized and distributed carried interest would be required to be returned, a liability is established for the potential giveback obligation. As of September 30, 2014 and December 31, 2013, the Partnership has recognized \$42.1 million and \$39.6 million, respectively, for giveback obligations.

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

Investment Income (Loss)

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

Interest Income

Interest income is recognized when earned. Interest income earned by the Partnership is included in interest and other income in the accompanying condensed consolidated statements of operations. Interest income of the Consolidated Funds was \$217.0 million and \$225.4 million for the three months ended September 30, 2014 and 2013, respectively, and \$653.0 million and \$677.7 million for the nine months ended September 30, 2014 and 2013, respectively, and is included in interest and other income of Consolidated Funds in the accompanying condensed consolidated statements of operations.

Compensation and Benefits

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

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

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

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

Income Taxes

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

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

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

Tax Receivable Agreement

Exchanges of Carlyle Holdings partnership units for the Partnership's common units that are executed by the limited partners of the Carlyle Holdings partnerships result in transfers of and increases in the tax basis of the tangible and intangible assets of Carlyle Holdings, primarily attributable to a portion of the goodwill inherent in the business. These transfers and increases in tax basis will increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of the Partnership's subsidiaries, including Carlyle Holdings I GP Inc., which are referred to as the "corporate taxpayers," would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets. The Partnership has entered into a tax receivable agreement with the limited partners of the Carlyle Holdings partnerships whereby the corporate taxpayers have agreed to pay to the limited partners of the Carlyle Holdings partnerships involved in any exchange transaction

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85% of the amount of cash tax savings, if any, in U.S. federal, state and local income tax or foreign or franchise tax that the corporate taxpayers realize as a result of these increases in tax basis and, in limited cases, transfers or prior increases in tax basis. The corporate taxpayers expect to benefit from the remaining 15% of cash tax savings, if any, in income tax they realize. Payments under the tax receivable agreement will be based on the tax reporting positions that the Partnership will determine. The corporate taxpayers will not be reimbursed for any payments previously made under the tax receivable agreement if a tax basis increase is successfully challenged by the Internal Revenue Service. The Partnership records an increase in deferred tax assets for the estimated income tax effects of the increases in tax basis based on enacted federal and state tax rates at the date of the exchange. To the extent that the Partnership estimates that the corporate taxpayers will not realize the full benefit represented by the deferred tax asset, based on an analysis that will consider, among other things, its expectation of future earnings, the Partnership will reduce the deferred tax asset with a valuation allowance and will assess the probability that the related liability owed under the tax receivable agreement will be paid. The Partnership records 85% of the estimated realizable tax benefit (which is the recorded deferred tax asset less any recorded valuation allowance) as an increase to the liability due under the tax receivable agreement, which is included in due to affiliates in the accompanying condensed consolidated financial statements. The remaining 15% of the estimated realizable tax benefit is initially recorded as an increase to the Partnership's partners' capital.

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

Non-controlling Interests

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

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

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

Earnings Per Common Unit

The Partnership computes earnings per common unit in accordance with ASC 260, Earnings Per Share ("ASC 260"). Basic earnings per common unit is calculated by dividing net income (loss) attributable to the common units of the Partnership by the weighted-average number of common units outstanding for the period. Diluted earnings per

common unit reflects the assumed conversion of all dilutive securities. Net income (loss) attributable to the common units excludes net income (loss) and dividends attributable to any participating securities under the two-class method of ASC 260.

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Investments

Investments include (i) the Partnership's ownership interests (typically general partner interests) in the Funds, (ii) the investments held by the Consolidated Funds (all of which are presented at fair value in the Partnership's condensed consolidated financial statements), (iii) strategic investments made by the Partnership and (iv) certain credit-oriented investments.

The valuation procedures utilized for investments of the Funds vary depending on the nature of the investment. The fair value of investments in publicly-traded securities is based on the closing price of the security with adjustments to reflect appropriate discounts if the securities are subject to restrictions. The fair value of non-equity securities, which may include instruments that are not listed on an exchange, considers, among other factors, external pricing sources, such as dealer quotes or independent pricing services, recent trading activity or other information that, in the opinion of the Partnership, may not have been reflected in pricing obtained from external sources. When valuing private securities or assets without readily determinable market prices, the Partnership gives consideration to operating results, financial condition, economic and/or market events, recent sales prices and other pertinent information. These valuation procedures may vary by investment but include such techniques as comparable public market valuation, comparable acquisition valuation and discounted cash flow analysis. Because of the inherent uncertainty, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and it is reasonably possible that the difference could be material. Furthermore, there is no assurance that, upon liquidation, the Partnership will realize the values presented herein.

Upon the sale of a security, the realized net gain or loss is computed on a weighted average cost basis, with the exception of the CLOs, which compute the realized net gain or loss on a first in, first out basis. Securities transactions are recorded on a trade date basis.

Equity-Method Investments

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

Cash and Cash Equivalents

Cash and cash equivalents include cash held at banks and cash held for distributions, including temporary investments with original maturities of less than three months when purchased. Included in cash and cash equivalents is cash withheld from carried interest distributions for potential giveback obligations of \$49.6 million and \$55.2 million at September 30, 2014 and December 31, 2013, respectively.

Cash and Cash Equivalents Held at Consolidated Funds

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

Restricted Cash

In addition to the unrestricted cash held for potential giveback obligations discussed above, the Partnership is required to withhold a certain portion of the carried interest proceeds from one of its Corporate Private Equity funds to provide a reserve for potential giveback obligations. In connection with this agreement, cash and cash equivalents of \$13.2 million is included in restricted cash at September 30, 2014 and December 31, 2013. Restricted cash at September 30, 2014 also includes \$12.5 million of cash received on behalf of certain non-consolidated Carlyle funds that was paid out in October 2014. Also included in restricted cash at September 30, 2014 and December 31, 2013 is €4.4 million (\$5.6 million and \$6.1 million as of September 30, 2014 and December 31, 2013, respectively) in escrow related to a tax contingency at one of the Partnership's real estate funds (see Note 11). The remaining balance in restricted cash at September 30, 2014 and December 31, 2013 primarily represents cash held by the Partnership's foreign subsidiaries

due to certain government regulatory capital requirements.

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Restricted Cash and Securities of Consolidated Funds

Certain CLOs receive cash from various counterparties to satisfy collateral requirements on derivative transactions. Cash received to satisfy these collateral requirements of \$2.5 million and \$13.4 million is included in restricted cash and securities of Consolidated Funds at September 30, 2014 and December 31, 2013, respectively.

Certain CLOs hold U.S. Treasury notes and corporate bonds as collateral for specific classes of loans payable in the CLOs. As of September 30, 2014 and December 31, 2013, securities of \$12.4 million and \$12.3 million, respectively, are included in restricted cash and securities of Consolidated Funds.

Derivative Instruments

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

Fixed Assets

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

Intangible Assets and Goodwill

The Partnership's intangible assets consist of acquired contractual rights to earn future fee income, including management and advisory fees, customer relationships, and acquired trademarks. Finite-lived intangible assets are amortized over their estimated useful lives, which range from three to ten years, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Goodwill represents the excess of cost over the identifiable net assets of businesses acquired and is recorded in the functional currency of the acquired entity. Goodwill is recognized as an asset and is reviewed for impairment annually as of October 1st and between annual tests when events and circumstances indicate that impairment may have occurred.

Deferred Revenue

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

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Comprehensive Income (Loss)

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

	As of September 30, 2014	December 31, 2013	
	(Dollars in millions)		
Unrealized losses on cash flow hedge instruments	\$(1.0	) \$(1.0)
Currency translation adjustments	(17.8	) (8.5)
Unrealized losses on defined benefit plans	(1.5	) (1.7)
Total	\$(20.3	) \$(11.2)

Foreign Currency Translation

Non-U.S. dollar denominated assets and liabilities are translated at period-end rates of exchange, and the condensed consolidated statements of operations are translated at rates of exchange in effect throughout the period. Foreign currency losses resulting from transactions outside of the functional currency of an entity of \$1.1 million and \$2.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$5.6 million and \$3.2 million for the nine months ended September 30, 2014 and 2013, respectively, are included in general, administrative and other expenses in the condensed consolidated statements of operations.

Recent Accounting Pronouncements

In August 2014, the FASB issued ASU 2014-13, "Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity." ASU 2014-13 relates to reporting entities that elect to measure all eligible financial assets and financial liabilities of a consolidated collateralized financing entity at fair value. Under the Partnership's current practice, the difference between the fair value of the financial assets and the fair value of the financial liabilities is classified within partners' capital appropriated for Consolidated Funds. ASU 2014-13 requires the reporting entity to initially measure both the financial assets and financial liabilities using the fair value of the financial assets or financial liabilities, whichever is more observable. As a result, the reporting entity will no longer have a difference to report within appropriated partners' capital. This guidance is effective for the Partnership on January 1, 2016. The Partnership's consolidated CLOs are consolidated collateralized financing entities for which the Partnership has measured financial assets and financial liabilities at fair value. The Partnership is assessing the impact that ASU 2014-13 will have on its consolidated financial statements, but does not expect the adoption to impact net income attributable to the Partnership.

In May 2014, the FASB issued ASU 2014-9, Revenue from Contracts with Customers (Topic 606). ASU 2014-9 provides comprehensive guidance for recognizing revenue from contracts with customers. Entities will be able to recognize revenue when the entity transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The guidance includes a five-step framework that requires an entity to: (i) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when the entity satisfies a performance obligation. The guidance in ASU 2014-9 is effective for the Partnership beginning on January 1, 2017. The Partnership is still assessing the potential impact of this guidance, however, this may have a material impact on the Partnership's consolidated financial statements by significantly delaying the recognition of performance fee revenue.

In June 2013, the FASB issued ASU 2013-8, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. ASU 2013-8 provides additional guidance on the

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

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3. Acquisitions

Acquisition of Diversified Global Asset Management Corporation

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

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

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

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

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

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

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

Acquisition of Metropolitan Real Estate Equity Management

On November 1, 2013, the Partnership acquired 100% of the equity interests in Metropolitan Real Estate Equity Management, LLC ("Metropolitan"), a global manager of real estate fund of funds with more than \$2.6 billion in capital commitments at the acquisition date. The purchase price consisted of approximately \$12.8 million in cash and 67,338 newly issued common units (approximately \$2.1 million). The transaction also included contingent consideration that is payable through 2018 upon the achievement of performance conditions of up to \$5.0 million in cash and common units equivalent to \$10.0 million at the time of vesting. Additionally, the transaction included compensation of 52,889

newly issued Carlyle Holdings partnership units (approximately \$1.6 million) that vest ratably over a period of 5 years, up to \$10.4 million of cash payable through 2018 based on the achievement of performance conditions, and \$10.6 million and \$10.0 million of Carlyle

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Holdings partnership units and common units, respectively, that are issuable through 2023 based on the achievement of performance conditions and time vesting. The Partnership consolidated the financial position and results of operations of Metropolitan effective November 1, 2013 and accounted for this transaction as a business combination. Metropolitan is included in the Partnership's Solutions business segment.

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

Acquisition of Remaining 40% Equity Interest in AlpInvest

On August 1, 2013, Carlyle Holdings, a controlled subsidiary of the Partnership, acquired the remaining 40% equity interest in AlpInvest for an aggregate of 2,887,970 newly issued common units of the Partnership (approximately \$80.8 million) and approximately €4.5 million in cash (approximately \$6.0 million). Of the 2,887,970 common units issued in this transaction, 914,087 common units (approximately \$25.5 million) were issued to AlpInvest sellers who are employees of the Partnership and are subject to vesting over a period up to 5 years (see Note 16). The remaining 1,973,883 common units issued in the transaction (approximately \$55.3 million) were not subject to any vesting conditions. The Partnership accounted for this transaction as an acquisition of ownership interests in a subsidiary while retaining a controlling interest in the subsidiary. Accordingly, the carrying value of the non-controlling interest was adjusted to reflect the change in the ownership interests in AlpInvest. The excess of the fair value of the consideration paid by the Partnership (excluding any elements of the transaction deemed to be compensatory) over the carrying amount of the non-controlling interest acquired was recognized directly as a reduction to partners' capital. See Note 3 to the consolidated financial statements included in the Partnership's 2013 Annual Report on Form 10-K for additional information on the acquisition of the remaining 40% equity interest in AlpInvest.

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4. Fair Value Measurement

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

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

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

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

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

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

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

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Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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

(Dollars in millions)	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Funds:				
Equity securities	\$403.9	\$220.8	\$2,385.5	\$3,010.2
Bonds	—	—	1,248.8	1,248.8
Loans	—	—	14,817.2	14,817.2
Partnership and LLC interests ⁽¹⁾	—	—	3,788.3	3,788.3
Hedge funds	—	5,016.6	—	5,016.6
Other	—	—	0.8	0.8
	403.9	5,237.4	22,240.6	27,881.9
Trading securities	—	—	3.7	3.7
Restricted securities of Consolidated Funds	3.9	—	8.5	12.4
Total	\$407.8	\$5,237.4	\$22,252.8	\$27,898.0
Liabilities				
Loans payable of Consolidated Funds	\$—	\$—	\$16,420.9	\$16,420.9
Loans payable of a consolidated real estate VIE	—	—	160.1	160.1
Interest rate swaps	—	3.9	—	3.9
Derivative instruments of the CLOs	—	—	17.8	17.8
Contingent consideration ⁽²⁾	—	14.2	84.8	99.0
Total	\$—	\$18.1	\$16,683.6	\$16,701.7

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

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

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

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

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

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

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

In the absence of observable market prices, the Partnership values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist. Management's determination of fair value is then based on the best information available in the circumstances and may incorporate management's own

assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies and real estate properties, and certain debt positions. The valuation technique for each of these investments is described below: Private Equity and Real Estate Investments – The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization (“EBITDA”), the discounted cash flow method, public market or private transactions, valuations for comparable companies or sales of comparable assets,

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

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

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

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

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

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

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

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Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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

	Financial Assets Three Months Ended September 30, 2014 Investments of Consolidated Funds							Restricted securities and Total Consolidated Funds
	Equity securities	Bonds	Loans	Partnership and LLC interests	Other	Trading securities and other		
Balance, beginning of period	\$2,582.4	\$1,345.8	\$14,344.7	\$3,761.8	\$1.5	\$4.7	\$8.4	\$22,049.3
Transfers out ⁽¹⁾	(47.7)	—	—	—	—	—	—	(47.7)
Purchases	1.1	167.2	2,572.3	101.3	—	—	—	2,841.9
Sales	(4.1)	(180.5)	(607.3)	(252.1)	(0.8)	(0.2)	—	(1,045.0)
Settlements	—	—	(1,054.2)	—	—	—	—	(1,054.2)
Realized and unrealized gains (losses), net	(146.2)	(83.7)	(438.3)	177.3	0.1	(0.8)	0.1	(491.5)
Balance, end of period	\$2,385.5	\$1,248.8	\$14,817.2	\$3,788.3	\$0.8	\$3.7	\$8.5	\$22,252.8
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$53.5	\$(3.0)	\$(50.0)	\$44.7	\$0.2	\$(0.8)	\$0.1	\$44.7

	Financial Assets Nine Months Ended September 30, 2014 Investments of Consolidated Funds							Restricted securities and Total Consolidated Funds
	Equity securities	Bonds	Loans	Partnership and LLC interests	Other	Trading securities and other		
Balance, beginning of period	\$2,714.1	\$1,249.5	\$14,067.8	\$3,815.2	\$2.0	\$6.9	\$8.6	\$21,864.1
Transfers in ⁽¹⁾	4.5	—	—	—	—	—	—	4.5
Transfers out ⁽¹⁾	(135.2)	—	—	—	—	—	—	(135.2)
Purchases	27.5	557.2	6,331.7	274.3	—	—	—	7,190.7
Sales	(430.6)	(486.2)	(1,805.4)	(931.4)	(0.8)	(3.8)	—	(3,658.2)
Settlements	—	—	(3,285.7)	—	—	—	—	(3,285.7)
Realized and unrealized gains (losses), net	205.2	(71.7)	(491.2)	630.2	(0.4)	0.6	(0.1)	272.6
Balance, end of period	\$2,385.5	\$1,248.8	\$14,817.2	\$3,788.3	\$0.8	\$3.7	\$8.5	\$22,252.8
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting	\$79.8	\$9.3	\$(36.3)	\$31.6	\$0.1	\$0.6	\$(0.1)	\$85.0

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Notes to the Condensed Consolidated Financial Statements
(Unaudited)Financial Assets
Three Months Ended September 30, 2013
Investments of Consolidated Funds

	Equity securities	Bonds	Loans	Partnership and LLC interests	Other	Trading securities and other	Restricted securities and Consolidated Funds	Total
Balance, beginning of period	\$2,617.6	\$1,058.9	\$13,771.2	\$3,840.6	\$11.5	\$ 10.0	\$—	\$21,309.8
Transfer in ⁽¹⁾	2.9	—	—	—	—	—	8.5	11.4
Transfers out ⁽¹⁾	(7.7)	—	—	—	—	—	—	(7.7)
Purchases	37.0	262.7	1,779.4	31.6	21.6	—	—	2,132.3
Sales	(98.7)	(145.2)	(549.2)	(304.5)	(0.6)	(0.8)	—	(1,099.0)
Settlements	—	—	(1,338.0)	—	—	—	—	(1,338.0)
Realized and unrealized gains (losses), net	25.8	23.1	112.4	142.3	(29.2)	(2.1)	0.1	272.4
Balance, end of period	\$2,576.9	\$1,199.5	\$13,775.8	\$3,710.0	\$3.3	\$ 7.1	\$8.6	\$21,281.2
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$48.4	\$(12.5)	\$(69.0)	\$(79.8)	\$(29.8)	\$(2.0)	\$0.1	\$(144.6)

Financial Assets
Nine Months Ended September 30, 2013
Investments of Consolidated Funds

	Equity securities	Bonds	Loans	Partnership and LLC interests	Other	Trading securities and other	Restricted securities and Consolidated Funds	Total
Balance, beginning of period	\$2,475.1	\$934.2	\$13,290.1	\$4,315.5	\$7.3	\$ 20.0	\$—	\$21,042.2
Initial consolidation of funds	—	—	—	—	10.4	—	—	10.4
Transfers in ⁽¹⁾	2.9	—	—	—	—	—	8.5	11.4
Transfers out ⁽¹⁾	(12.0)	—	—	—	—	—	—	(12.0)
Purchases	144.3	677.8	6,449.5	164.7	21.6	—	—	7,457.9
Sales	(227.4)	(471.7)	(1,909.8)	(1,143.1)	(9.6)	(14.4)	—	(3,776.0)
Settlements	—	—	(4,315.8)	—	—	—	—	(4,315.8)
Realized and unrealized gains (losses), net	194.0	59.2	261.8	372.9	(26.4)	1.5	0.1	863.1

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Balance, end of period	\$2,576.9	\$1,199.5	\$13,775.8	\$3,710.0	\$3.3	\$7.1	\$8.6	\$21,281.2
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$214.1	\$23.6	\$82.6	\$(305.3)) \$(34.7)	\$ (0.9) \$0.1	\$(20.5)

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

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Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	Financial Liabilities				
	Three Months Ended September 30, 2014				
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Loans Payable of a consolidated real estate VIE	Total
Balance, beginning of period	\$ 16,136.4	\$ 15.2	\$ 132.3	\$ 147.7	\$ 16,431.6
Initial consolidation of funds	811.0	—	—	—	811.0
Borrowings	592.6	—	—	8.8	601.4
Paydowns	(673.6	) —	(21.9	) (19.5	) (715.0
Sales	—	(0.6	) —	—	(0.6
Realized and unrealized (gains) losses, net	(445.5	) 3.2	(25.6	) 23.1	(444.8
Balance, end of period	\$ 16,420.9	\$ 17.8	\$ 84.8	\$ 160.1	\$ 16,683.6
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$ 16.5	\$(3.9	) \$(25.6	) \$ 23.1	\$ 10.1

	Financial Liabilities				
	Nine Months Ended September 30, 2014				
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Loans Payable of a consolidated real estate VIE	Total
Balance, beginning of period	\$ 15,220.7	\$ 13.1	\$ 185.9	\$ 122.1	\$ 15,541.8
Initial consolidation of funds	811.0	—	—	—	811.0
Borrowings	3,066.9	—	—	45.5	3,112.4
Paydowns	(2,308.7	) —	(95.6	) (61.4	) (2,465.7
Sales	—	(3.9	) —	—	(3.9
Realized and unrealized (gains) losses, net	(369.0	) 8.6	(5.5	) 53.9	(312.0
Balance, end of period	\$ 16,420.9	\$ 17.8	\$ 84.8	\$ 160.1	\$ 16,683.6
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$ 18.2	\$(8.0) \$(5.5) \$ 53.9	\$ 58.6

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Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	Financial Liabilities				
	Three Months Ended September 30, 2013				
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Loans Payable of a consolidated real estate VIE	Total
Balance, beginning of period	\$15,019.8	\$8.9	\$172.2	\$—	\$15,200.9
Initial consolidation of real estate VIE	—	—	—	123.8	123.8
Borrowings	514.2	—	—	—	514.2
Paydowns	(634.2)	) —	(10.4)	) —	(644.6)
Sales	—	(5.0)	) —	—	(5.0)
Realized and unrealized losses, net	170.8	6.8	9.7	—	187.3
Balance, end of period	\$15,070.6	\$10.7	\$171.5	\$123.8	\$15,376.6
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$(61.8)	) \$1.9	\$9.7	\$—	\$(50.2)

	Financial Liabilities				
	Nine Months Ended September 30, 2013				
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Loans Payable of a consolidated real estate VIE	Total
Balance, beginning of period	\$13,656.7	\$15.8	\$186.7	\$—	\$13,859.2
Initial consolidation of a real estate VIE	—	—	—	123.8	123.8
Borrowings	2,716.7	—	—	—	2,716.7
Paydowns	(2,042.9)	) —	(21.3)	) —	(2,064.2)
Sales	—	(5.8)	) —	—	(5.8)
Realized and unrealized losses, net	740.1	0.7	6.1	—	746.9
Balance, end of period	\$15,070.6	\$10.7	\$171.5	\$123.8	\$15,376.6
Changes in unrealized losses included in earnings related to financial liabilities still held at the reporting date	\$556.4	\$1.7	\$6.1	\$—	\$564.2

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

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

(Dollars in millions)	Fair Value at September 30, 2014	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Assets				
Investments of Consolidated Funds:				
Equity securities	\$2,342.0	Comparable Multiple	LTM EBITDA Multiple	4.8x - 16.7x (12.0x)
	6.6	Comparable Multiple	Book Value Multiple	1.0x - 1.0x (1.0x)
	16.9	Consensus Pricing	Indicative Quotes (\$ per share)	\$0 - \$256 (\$0)
	20.0	Discounted Cash Flow	Discount Rate	4% - 4% (4%)
Bonds	1,248.8	Consensus Pricing	Indicative Quotes (% of Par)	0 - 134 (101)
Loans	14,592.7	Consensus Pricing	Indicative Quotes (% of Par)	0 - 127 (97)
	224.5	Market Yield Analysis	Market Yield	5% - 16% (11%)
Partnership and LLC interests	3,788.3	NAV of Underlying Fund ⁽¹⁾	N/A	N/A
Other	0.8	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	0 - 4 (2)
	22,240.6			
Trading securities and other	3.4	Comparable Multiple	LTM EBITDA Multiple	5.8x - 5.8x (5.8x)
	0.3	Discounted Cash Flow	Discount Rate	15% - 15% (15%)
Restricted securities of Consolidated Funds	8.5	Consensus Pricing	Indicative Quotes (% of Par)	85 - 85 (85)
Total	\$22,252.8			
Liabilities				
Loans payable of Consolidated Funds:				
Senior secured notes	\$14,984.4	Discounted Cash Flow with Consensus Pricing	Discount Rates	1% - 10% (3%)
			Default Rates	1% - 4% (3%)
			Recovery Rates	60% - 75% (66%)
			Indicative Quotes (% of Par)	33 - 101 (98)
Subordinated notes and preferred shares	1,420.2	Discounted Cash Flow with Consensus Pricing	Discount Rates	8% - 15% (10%)
			Default Rates	1% - 4% (2%)
			Recovery Rates	60% - 75% (66%)
				1 - 136 (65)

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Combination notes	16.3	Consensus Pricing	Indicative Quotes (% of Par)	98 - 103 (100)
Loans payable of a consolidated real estate VIE	160.1	Discounted Cash Flow	Indicative Quotes (% of Par)	0% - 100% (36%)
			Discount to Expected Payment	21% - 31% (24%)
			Discount Rate	
Derivative instruments of Consolidated Funds	17.8	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	1 - 22 (11)
Contingent cash consideration ⁽²⁾	84.8	Discounted Cash Flow	Assumed % of Total Potential Contingent Payments	0% - 100% (64%)
			Discount Rate	4% - 18% (14%)
Total	\$ 16,683.6			

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

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

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

(Dollars in millions)	Fair Value at December 31, 2013	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Assets				
Investments of Consolidated Funds:				
Equity securities	\$2,479.6	Comparable Multiple	LTM EBITDA Multiple	5.6x- 15.5x (10.8x)
	169.7	Comparable Multiple	Price Earnings Multiple	17.0x-17.0x (17.0x)
	10.2	Comparable Multiple	Book Value Multiple	1.0x -1.0x (1.0x)
	24.1	Consensus Pricing	Indicative Quotes (\$ per share)	\$0 - \$250 (\$0)
	30.5	Discounted Cash Flow	Discount Rate	5% - 12% (11%)
			Exit Cap Rate	11%-11% (11%)
Bonds	1,249.5	Consensus Pricing	Indicative Quotes (% of Par)	0 - 130 (100)
Loans	13,858.6	Consensus Pricing	Indicative Quotes (% of Par)	0 - 158 (98)
	209.2	Market Yield Analysis	Market Yield	5% - 17% (10%)
Partnership and LLC interests	3,815.2	NAV of Underlying Fund ⁽¹⁾	N/A	N/A
Other	2.0	Various	N/A	N/A
	21,848.6			
Trading securities and other	5.0	Comparable Multiple	LTM EBITDA Multiple	5.9x - 5.9x (5.9x)
	1.9	Discounted Cash Flow	Discount Rate	7% - 7% (7%)
Restricted securities of Consolidated Funds	8.6	Consensus Pricing	Indicative Quotes (% of Par)	86 - 86 (86)
Total	\$21,864.1			
Liabilities				
Loans payable of Consolidated Funds:				
Senior secured notes	\$13,910.4	Discounted Cash Flow with Consensus Pricing	Discount Rates	2% - 10% (3%)
			Default Rates	1% - 6% (3%)
			Recovery Rates	50% - 75% (63%)
			Indicative Quotes (% of Par)	40 - 101 (98)
Subordinated notes and preferred shares	1,294.0	Discounted Cash Flow with Consensus Pricing	Discount Rates	9% - 25% (16%)
			Default Rates	1% - 6% (2%)
			Recovery Rates	50% - 75% (62%)

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			Indicative Quotes (% of Par)	0 - 102 (60)
Combination notes	16.3	Consensus Pricing	Indicative Quotes (% of Par)	93 - 100 (98)
Loans payable of a consolidated real estate VIE	122.1	Discounted Cash Flow	Discount to Expected Payment	0% - 100% (45%)
			Discount Rate	20% - 30% (23%)
Derivative instruments of Consolidated Funds	13.1	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	1 - 31 (6)
Contingent cash consideration ⁽²⁾	185.9	Discounted Cash Flow	Assumed % of Total Potential Contingent Payments	0% - 100% (81%)
			Discount Rate	1% - 32% (17%)
Total	\$15,541.8			

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

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

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

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

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

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

The significant unobservable inputs used in the fair value measurement of the Partnership's loans payable of Consolidated Funds are discount rates, default rates, recovery rates and indicative quotes. Significant increases in discount rates or default rates in isolation would result in a significantly lower fair value measurement, while a significant increase in recovery rates and indicative quotes in isolation would result in a significantly higher fair value. The significant unobservable inputs used in the fair value measurement of the Partnership's loans payable of a consolidated real estate VIE are discounts to expected payment and discount rate. A significant increase in either of these inputs in isolation would result in a significantly lower fair value measurement.

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

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

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5. Accrued Performance Fees

The components of accrued performance fees are as follows:

	As of September 30, 2014 (Dollars in millions)	December 31, 2013
Corporate Private Equity	\$2,799.9	\$2,830.4
Global Market Strategies	140.5	167.2
Real Assets	328.1	277.2
Solutions	474.9	378.8
Total	\$3,743.4	\$3,653.6

Approximately 54% of accrued performance fees at September 30, 2014 are related to Carlyle Partners V, L.P. and Carlyle Europe Partners III, L.P., two of the Partnership's Corporate Private Equity funds.

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

Accrued performance fees are shown gross of the Partnership's accrued performance fee-related compensation, and accrued giveback obligations (see Note 10), which are separately presented in the condensed consolidated balance sheets. The components of the accrued giveback obligations are as follows:

	As of September 30, 2014 (Dollars in millions)	December 31, 2013
Corporate Private Equity	\$(27.1	) \$(10.4
Global Market Strategies	(2.1	) (2.1
Real Assets	(12.9	) (27.1
Total	\$(42.1	) \$(39.6
Performance Fees		

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

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013	2013	2013	2013
	(Dollars in millions)			
Corporate Private Equity	\$217.1	\$265.6	\$981.8	\$886.5
Global Market Strategies	(19.4	) (14.8	) 91.6	142.4
Real Assets	31.9	24.6	108.8	73.7
Solutions	(42.2	) 45.1	168.1	119.4
Total	\$187.4	\$320.5	\$1,350.3	\$1,222.0

Approximately 64% (\$120.6 million) of performance fees for the three months ended September 30, 2014 are related to Carlyle Partners IV, L.P., Carlyle Partners V, L.P., Carlyle Europe Partners III, L.P., Carlyle U.S. Equity Opportunity Fund, L.P., four of the Partnership's Corporate Private Equity funds, and Carlyle Realty Partners VI, L.P., one of the Partnership's Real Assets funds, as well as Claren Road's Master Fund and Credit Opportunities Fund and AlpInvest's Main Fund III Secondary

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Investments (2006) and Main Fund III Co-Investments (2006). Total revenues recognized from Carlyle Partners IV, L.P., Carlyle Partners V, L.P., Carlyle Europe Partners III, L.P., Carlyle U.S. Equity Opportunity Fund, L.P. and Carlyle Realty Partners VI, L.P., were \$(28.5) million, \$107.9 million, \$142.1 million, \$38.4 million and \$29.5 million respectively, for the three months ended September 30, 2014. For the three months ended September 30, 2014, total revenue from Claren Road's Master Fund and Credit Opportunities Fund was \$(6.0) million and \$(7.4) million, respectively, and AlpInvest's Main Fund III Secondary Investments (2006) and Main Fund III Co-Investments (2006) collectively was \$(75.8) million. The revenue reversal from these AlpInvest vehicles resulted in a corresponding decrease to performance fee compensation expense of \$56.9 million and a decrease to the provision for income taxes of \$18.9 million, resulting in no net impact to the net income attributable to Carlyle Holdings for this period.

Approximately 66% (\$897.2 million) of performance fees for the nine months ended September 30, 2014 are related to Carlyle Partners V, L.P. and Carlyle Europe Partners III, L.P., two of the Partnership's Corporate Private Equity funds. Total revenues recognized from Carlyle Partners V, L.P. and Carlyle Europe Partners III, L.P. were \$487.8 million and \$527.2 million, respectively, for the nine months ended September 30, 2014.

Approximately 79% and 67% (\$252.3 million and \$814.3 million, respectively) of performance fees for the three and nine months ended September 30, 2013, respectively, were related to Carlyle Partners IV, L.P., Carlyle Partners V, L.P., and Carlyle Global Financial Services Partners, L.P., three of the Partnership's Corporate Private Equity funds. Total revenues recognized from Carlyle Partners IV, L.P., Carlyle Partners V, L.P. and Carlyle Global Financial Services Partners, L.P. were \$104.4 million, \$143.1 million and \$37.0 million, respectively, for the three months ended September 30, 2013, and were \$327.4 million, \$578.5 million and \$55.9 million, respectively, for the nine months ended September 30, 2013.

6. Investments

Investments consist of the following:

	As of	
	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Equity method investments, excluding accrued performance fees	\$972.0	\$751.1
Trading securities and other investments	13.2	14.2
Total investments	\$985.2	\$765.3

Strategic Investment in NGP

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

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

The sellers also granted the Partnership options to purchase additional interests in NGP. Specifically, the Partnership acquired (1) an option, exercisable by the Partnership between July 1, 2014 and July 1, 2015, to purchase from BNRI the net capital amount that has been contributed by BNRI in the general partner of NGP X entitling the Partnership to

an allocation of income equal to 40% of the carried interest received by such fund's general partner; (2) an option, exercisable by the Partnership from December 20, 2012 until January 1, 2015, to purchase from BNRI additional interests in the general partners

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of all future carry funds advised by NGP entitling the Partnership to an additional equity allocation equal to 40% of the carried interest received by such fund general partners; and (3) an option, exercisable by the Partnership in approximately 13 years, to purchase from ECM Capital, L.P. and its affiliates, for a formulaic purchase price in cash based upon a measure of the earnings of NGP, the remaining equity interests in NGP Management.

In May 2014, the Partnership exercised the option to acquire additional interests in the general partners of all future carry funds advised by NGP, which entitles the Partnership to an additional equity allocation equal to 40% of the carried interest received by such fund general partners. The exercise price for this option was approximately \$35.2 million and is included in the carrying value of the Partnership's equity-method investments in NGP. In July 2014, the Partnership exercised its option to acquire interests in the general partner of NGP X, which entitles the Partnership to an allocation of income equal to 40% of the carried interest received by the fund's general partner. The exercise price for this option was approximately \$61.3 million. The Partnership additionally acquired certain general partner investments in the NGP X fund, for which it paid \$16.6 million. As of September 30, 2014, the carrying value of the Partnership's investment in the NGP X general partner attributable to the carried interest allocation was approximately \$60.8 million, and the carrying value of the Partnership's general partner investments in the NGP X fund were \$23.1 million.

In consideration for these interests and options, the Partnership paid an aggregate of \$384.0 million in cash to ECM Capital, L.P. and BNRI, and issued 996,572 Carlyle Holdings partnership units to ECM Capital, L.P. that vest ratably over a period of five years. The Partnership will also pay consideration of \$7.5 million upon the termination of the investment period of the NGP X fund. The transaction also includes contingent consideration payable to ECM Capital, L.P. of up to \$45.0 million in cash, 597,944 Carlyle Holdings partnership units that were issued at closing but vest upon the achievement of performance conditions, and contingently issuable Carlyle Holdings partnership units up to \$15.0 million that will be issued if the performance conditions are met. The contingent consideration is payable from 2015 through 2018, depending on NGP's achievement of certain business performance goals. Additionally, the transaction includes contingent consideration payable to BNRI of up to \$183.0 million, which will be payable partly in cash and partly by a promissory note issued by the Partnership, if the performance conditions are met. Based on the commitments raised to date for the NGP Natural Resources XI, L.P. fund ("NGP XI"), it is probable that BNRI will receive a portion of the contingent consideration. Accordingly, as of September 30, 2014, the Partnership has accrued \$153.0 million related to this obligation. The timing of the cash payment and issuance of the promissory note to BNRI is based on the contractual agreement between the Partnership and BNRI, which is currently estimated to be in early 2016.

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

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

The Partnership records investment income for its equity income allocation from NGP, and also records, as a reduction of investment income, its share of any allocated expenses from NGP Management, expenses associated with the compensatory elements of the transaction, and the amortization of the basis differences related to the definitive-lived identifiable intangible assets of NGP Management. The net investment earnings (loss) recognized in the Partnership's condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 were as follows:

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	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Investment earnings	\$16.9	\$15.8	\$46.5	\$47.6
Expenses and amortization of basis differences	19.3	19.6	57.6	56.1
Net investment loss	\$(2.4) \$(3.8) \$(11.1) \$(8.5

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The difference between the Partnership's carrying value of its investment and its share of the underlying net assets of the investee was \$156.1 million and \$199.6 million as of September 30, 2014 and December 31, 2013, respectively; these differences are amortized over a period of 10 years from the initial investment date.

In October 2014, the investment period for NGP X terminated. Accordingly, the Partnership will pay ECM Capital, L.P. \$7.5 million in January 2015 to acquire an additional 7.5% equity interest in NGP Management. As a result of this transaction and the original investment in December 2012, beginning in January 2015, the Partnership will be entitled to an allocation of income equal to 55% of the management fee-related revenues of the NGP entities that serve as the advisors to certain private equity funds.

Equity-Method Investments

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

	As of September 30, 2014 (Dollars in millions)	December 31, 2013
Corporate Private Equity	\$111.5	\$206.5
Global Market Strategies	24.6	25.1
Real Assets	835.9	519.5
Total	\$972.0	\$751.1

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

Investment Income (Loss)

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

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2014	2013	2014	2013
	(Dollars in millions)			
Income from equity investments	\$4.3	\$6.7	\$32.3	\$11.6
Income (loss) from trading securities	(0.9) (1.7) 0.5	4.8
Other investment income	0.4	—	0.8	—
Total	\$3.8	\$5.0	\$33.6	\$16.4

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Corporate Private Equity	\$12.1	\$12.9	\$40.1	\$36.1
Global Market Strategies	0.7	0.9	2.4	2.7
Real Assets	(8.5	) (7.1	) (10.2	) (27.2
Total	\$4.3	\$6.7	\$32.3	\$11.6

Trading Securities and Other Investments

Trading securities and other investments as of September 30, 2014 and December 31, 2013 primarily consisted of \$13.2 million and \$14.2 million, respectively, of investments in corporate mezzanine securities and bonds, as well as other cost method investments.

Investments of Consolidated Funds

During the nine months ended September 30, 2014, the Partnership formed six new CLOs. The Partnership has concluded that these CLOs are VIEs and the Partnership is the primary beneficiary. As a result, the Partnership consolidated the financial positions and results of operations of these CLOs into its condensed consolidated financial statements beginning on their respective closing dates. As of September 30, 2014, the total assets of these CLOs included in the Partnership's condensed consolidated financial statements were approximately \$4.3 billion. There were no individual investments with a fair value greater than five percent of the Partnership's total assets for any period presented.

Interest and Other Income of Consolidated Funds

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Interest income from investments	\$217.0	\$225.4	\$653.0	\$677.7
Other income	17.1	76.6	75.5	145.6
Total	\$234.1	\$302.0	\$728.5	\$823.3

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Net Investment Gains (Losses) of Consolidated Funds

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Gains (losses) from investments of Consolidated Funds	\$ 169.5	\$(142.7)	) \$ 1,151.4	\$ 1,000.0
(Gains) losses from liabilities of CLOs	(45.3	) 60.8	(158.4	) (579.6
Gains (losses) on other assets of CLOs	1.3	(0.1)	) 1.5	(0.3
Total	\$ 125.5	\$(82.0)	) \$ 994.5	\$ 420.1

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

	Three Months Ended		Nine Months Ended	
	September 30, 2014		September 30, 2014	
	2014	2013	2014	2013
	(Dollars in millions)			
Realized gains (losses)	\$ 248.2	\$(138.2)	) \$ 1,194.4	\$ 556.3
Net change in unrealized gains (losses)	(78.7	) (4.5)	) (43.0	) 443.7
Total	\$ 169.5	\$(142.7)	) \$ 1,151.4	\$ 1,000.0

7. Intangible Assets and Goodwill

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

	As of	
	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Acquired contractual rights	\$ 849.3	\$ 826.1
Acquired trademarks	5.7	6.9
Accumulated amortization	(396.7	) (290.5
Finite-lived intangible assets, net	458.3	542.5
Goodwill	48.1	40.3
Intangible assets, net	\$ 506.4	\$ 582.8

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

	Global	Solutions	Total
	Market Strategies		
	(Dollars in millions)		
Balance as of December 31, 2013	\$ 28.0	\$ 12.3	\$ 40.3
Goodwill acquired during the period	—	8.6	8.6
Foreign currency translation	—	(0.8) (0.8

Balance as of September 30, 2014	\$28.0	\$20.1	\$48.1
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As part of the accounting for the acquisition of DGAM, the Partnership recorded \$8.6 million of goodwill in the first quarter of 2014. See Note 3 for more information on this acquisition.

During the nine months ended September 30, 2014, the Partnership evaluated for impairment certain intangible assets associated with acquired contractual rights for fee income based on revisions to the related expected future cash flows. The intangible assets are included in the Global Market Strategies segment. The Partnership recorded an impairment loss of \$30.6 million during the nine months ended September 30, 2014 to reduce the carrying value of the intangible assets to their estimated fair value. Fair value was based on a probability-weighted discounted cash flow model. This fair value measurement was based on significant inputs not observable in the market and thus represented a Level III measurement as defined in the accounting guidance for fair value measurements. The impairment loss was included in general, administrative and other expenses in the accompanying condensed consolidated financial statements for the nine months ended September 30, 2014.

Intangible asset amortization expense, excluding impairment losses, was \$25.1 million and \$27.7 million for the three months ended September 30, 2014 and 2013, respectively, and \$78.0 million and \$91.1 million for the nine months ended September 30, 2014 and 2013, respectively, and is included in general, administrative, and other expenses in the condensed consolidated statements of operations.

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

2014	\$103.4
2015	96.3
2016	81.3
2017	77.5
2018	70.4
Thereafter	112.0
	\$540.9

8. Borrowings

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

	As of September 30, 2014		As of December 31, 2013	
	Borrowing Outstanding	Carrying Value	Borrowing Outstanding	Carrying Value
Term Loan Due 8/09/2018	\$25.0	\$25.0	\$25.0	\$25.0
Term Loan ⁽¹⁾	15.9	15.9	17.4	17.4
3.875% Senior Notes Due 2/01/2023	500.0	499.9	500.0	499.8
5.625% Senior Notes Due 3/30/2043	600.0	606.9	400.0	398.4
	\$1,140.9	\$1,147.7	\$942.4	\$940.6

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

Senior Credit Facility

The senior credit facility includes \$500.0 million in a term loan and \$750.0 million in a revolving credit facility. The term loan and revolving credit facility mature on August 9, 2018. Principal amounts outstanding under the term loan and revolving credit facility accrue interest, at the option of the borrowers, either (a) at an alternate base rate plus an applicable margin not to exceed 0.75%, or (b) at LIBOR plus an applicable margin not to exceed 1.75% (at September 30, 2014, the interest rate was 1.41%). During the first quarter of 2013, the Partnership prepaid \$475.0 million of term loan principal that would have been due beginning in September 2014 and expensed \$1.9 million of

deferred financing costs in interest expense. The remaining outstanding principal amount under the term loan is payable on August 9, 2018. Interest expense under the senior credit facility was not significant for the three months and nine months ended September 30, 2014 and 2013. The fair value of the

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outstanding balances of the term loan and revolving credit facility at September 30, 2014 and December 31, 2013 approximated par value based on current market rates for similar debt instruments and are classified as Level III within the fair value hierarchy.

Other Borrowings

On October 3, 2013, the Partnership borrowed €12.6 million (\$15.9 million at September 30, 2014) under a new term loan and security agreement with a financial institution. Proceeds from the borrowing were used to fund the Partnership's investment in a CLO. Interest on the term loan accrues at EURIBOR plus 1.75% (1.83% at September 30, 2014). The Partnership may prepay the facility in whole or in part at any time without penalty. The facility is scheduled to mature on the earlier of 5 years after closing or the date that the CLO is dissolved. The facility is secured by the Partnership's investment in the CLO. Interest expense on the term loan was not significant for the three and nine months ended September 30, 2014. The fair value of the outstanding balance of the term loan at September 30, 2014 and December 31, 2013 approximated par value based on current market rates for similar debt instruments and are classified as Level III within the fair value hierarchy.

3.875% Senior Notes

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

Interest expense on the notes was \$5.0 million and \$4.9 million for the three months ended September 30, 2014 and 2013, respectively, and \$14.9 million and \$13.9 million for the nine months ended September 30, 2014 and 2013, respectively. At September 30, 2014 and December 31, 2013, the fair value of the notes was approximately \$514.1 million and \$479.6 million, respectively, based on indicative quotes and are classified as Level II within the fair value hierarchy.

5.625% Senior Notes

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

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

Interest expense on the notes was \$8.4 million and \$5.6 million for the three months ended September 30, 2014 and 2013, respectively, and \$23.1 million and \$11.5 million for the nine months ended September 30, 2014 and 2013, respectively. At September 30, 2014 and December 31, 2013, the fair value of the notes was approximately \$680.1 million and \$398.1 million, respectively, based on indicative quotes and are classified as Level II within the fair value hierarchy.

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Interest Rate Swaps

The Partnership is subject to interest rate risk associated with its variable rate debt financing. To manage this risk, the Partnership has an outstanding interest rate swap to fix the base LIBOR interest rate on its term loan borrowings with a notional amount of \$462.5 million at September 30, 2014 that amortizes through September 30, 2016.

In the first quarter of 2013, \$475.0 million of term loan principal was prepaid. As a result of these term loan prepayments, the interest rate swap is no longer accounted for as a cash flow hedge; the interest rate swap is accounted for as a freestanding derivative instrument recorded at fair value each period with changes in fair value recorded through earnings. The pre-existing hedge losses included in accumulated other comprehensive loss for this interest rate swap of \$8.8 million is being reclassified into earnings as the original forecasted transactions affect earnings. In March 2013, the Partnership entered into a second interest rate swap with a notional amount of \$437.5 million at September 30, 2014 that amortizes through September 30, 2016. This interest rate swap is accounted for as a freestanding derivative instrument recorded at fair value each period with changes in fair value recorded through earnings.

Debt Covenants

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

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

Loans Payable of Consolidated Funds

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

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

	As of September 30, 2014					Weighted Average Remaining Maturity in Years
	Borrowing Outstanding	Fair Value	Weighted Average Interest Rate	%	%	
Senior secured notes	\$15,289.9	\$14,984.4	1.67	%	%	9.17
Subordinated notes and preferred shares	1,359.4	1,420.2	N/A		(a)	7.94
Combination notes	15.0	16.3	N/A		(b)	7.39
Total	\$16,664.3	\$16,420.9				

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

(a) The subordinated notes and preferred shares do not have contractual interest rates, but instead receive distributions from the excess cash flows of the CLOs.

(b) The combination notes do not have contractual interest rates and have recourse only to the securities specifically held to collateralize such combination notes.

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

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9. Contingent Consideration

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

Rollforward For The Three Months Ended September 30, 2014

Amounts payable to the sellers who are Carlyle professionals

	Performance-based contingent cash consideration	Performance-based contingent equity consideration	Employment-based contingent consideration	Contingent cash and other consideration payable to non- Carlyle personnel	Total
(Dollars in millions)					
Balance, beginning of period	\$ 100.5	\$ 26.2	\$ 184.3	\$ 31.8	\$ 342.8
Change in carrying value	(27.5)	(12.0)	(26.0)	154.9	(a) 89.4
Payments	(20.2)	—	(0.4)	(1.7)	(22.3)
Issuance of The Carlyle Group L.P. common units	—	—	(0.6)	—	(0.6)
Balance, end of period	\$ 52.8	\$ 14.2	\$ 157.3	\$ 185.0	\$ 409.3

Rollforward For The Nine Months Ended September 30, 2014

Amounts payable to the sellers who are Carlyle professionals

	Performance-based contingent cash consideration	Performance-based contingent equity consideration	Employment-based contingent consideration	Contingent cash and other consideration payable to non- Carlyle personnel	Total
(Dollars in millions)					
Balance, beginning of period	\$ 152.2	\$ 15.7	\$ 148.7	\$ 33.7	\$ 350.3
Change in carrying value	(8.7)	(1.5)	9.6	156.2	(a) 155.6
Payments	(90.7)	—	(0.4)	(4.9)	(96.0)
Issuance of The Carlyle Group L.P. common units	—	—	(0.6)	—	(0.6)
Balance, end of period	\$ 52.8	\$ 14.2	\$ 157.3	\$ 185.0	\$ 409.3

(a) - Refer to Note 6 for information on the contingent consideration payable to BNRI from the strategic investment in NGP.

Rollforward For The Three Months Ended September 30, 2013

Amounts payable to the sellers who are senior Carlyle professionals

	Performance-based contingent cash consideration	Performance-based contingent equity consideration	Employment-based contingent consideration	Contingent cash and other consideration payable to non-	Total

	(Dollars in millions)			Carlyle personnel	
Balance, beginning of period	\$ 141.8	\$ 56.9	\$ 118.0	\$ 30.4	\$ 347.1
Change in carrying value	8.6	1.5	25.5	1.1	36.7
Payments	(9.6)	(2.3)	—	(0.8)	(12.7)
Balance, end of period	\$ 140.8	\$ 56.1	\$ 143.5	\$ 30.7	\$ 371.1

Rollforward For The Nine Months Ended September 30, 2013

Amounts payable to the sellers who are senior Carlyle professionals

	Performance-based contingent cash consideration	Performance-based contingent equity consideration	Employment-based contingent consideration	Contingent cash and other consideration payable to non- Carlyle personnel	Total
	(Dollars in millions)				
Balance, beginning of period	\$ 158.6	\$ 57.6	\$ 96.2	\$ 28.1	\$ 340.5
Change in carrying value	1.1	0.8	47.3	5.0	54.2
Payments	(18.9)	(2.3)	—	(2.4)	(23.6)
Balance, end of period	\$ 140.8	\$ 56.1	\$ 143.5	\$ 30.7	\$ 371.1

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The fair value of the performance-based contingent cash and equity consideration payable to the sellers who are Carlyle professionals has been recorded in due to affiliates in the accompanying condensed consolidated balance sheets. These payments are not contingent upon the Carlyle professional being employed by Carlyle at the time that the performance conditions are met. Changes in the fair value of these amounts are recorded in other non-operating (income) expenses in the condensed consolidated statements of operations. The portion of the contingent consideration payment attributable to the initial amount included as part of the consideration transferred is classified as cash flows from financing activities. The portion of the contingent consideration payment that is attributable to the subsequent changes in the fair value of the contingent consideration is classified as cash flows from operating activities in the condensed consolidated statements of cash flows.

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

The fair value of contingent consideration payable to non-Carlyle personnel is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. Changes in the fair value of this contingent consideration are recorded in other non-operating (income) expenses in the condensed consolidated statements of operations. Included in the change in carrying value for the three months and nine months ended September 30, 2014 is \$153.0 million related to the accrual of contingent consideration payable to BNRI (See Note 6). This amount was capitalized into the carrying value of the Partnership's equity method investment in NGP.

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

The following table represents the maximum amounts that could be paid from contingent cash obligations associated with the business acquisitions and the strategic investment in NGP Management:

As of September 30, 2014

	Business Acquisitions	NGP Investment	Total	Liability Recognized on Financial Statements ⁽¹⁾
	(Dollars in millions)			
Performance-based contingent cash consideration	\$266.6	\$183.0	\$449.6	\$237.8
Employment-based contingent cash consideration	345.8	45.0	390.8	157.3
Total maximum cash obligations	\$612.4	\$228.0	\$840.4	\$395.1

(1) On the condensed consolidated balance sheet, the liability for performance-based contingent cash consideration is included in due to affiliates (for amounts owed to Carlyle professionals) and accounts payable, accrued expenses, and other liabilities (for amounts owed to other sellers), and the liability for employment-based contingent cash consideration is included in accrued compensation and benefits. Also, the amounts shown here exclude liabilities

that have been recognized on the consolidated financial statements for performance-based contingent equity consideration.

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

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10. Accrued Compensation and Benefits

Accrued compensation and benefits consist of the following:

	As of	
	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Accrued performance fee-related compensation	\$1,771.6	\$1,661.8
Accrued bonuses	335.0	238.0
Employment-based contingent cash consideration	157.3	148.7
Other	101.6	204.5
Total	\$2,365.5	\$2,253.0

11. Commitments and Contingencies

Capital Commitments

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

	Unfunded Commitments
Corporate Private Equity	\$1,909.1
Global Market Strategies	227.2
Real Assets	802.2
Solutions	38.8
	\$2,977.3

Of the \$3.0 billion of unfunded commitments, approximately \$2.7 billion is subscribed individually by senior Carlyle professionals, operating executives and other professionals, with the balance funded directly by the Partnership. In addition to these unfunded commitments, the Partnership may from time to time exercise its right to purchase additional interests in its investment funds that become available in the ordinary course of their operations.

Guaranteed Loans

On August 4, 2001, the Partnership entered into an agreement with a financial institution pursuant to which the Partnership is the guarantor on a credit facility for eligible employees investing in Carlyle sponsored funds. This credit facility renews on an annual basis, allowing for annual incremental borrowings up to an aggregate of \$11.3 million, and accrues interest at the lower of the prime rate, as defined, or three-month LIBOR plus 2%, reset quarterly (3.23% weighted-average rate at September 30, 2014). As of September 30, 2014 and December 31, 2013, approximately \$8.2 million and \$9.0 million, respectively, were outstanding under the credit facility and payable by the employees. The amount funded by the Partnership under this guarantee as of September 30, 2014 was not material. The Partnership believes the likelihood of any material funding under this guarantee to be remote. The fair value of this guarantee is not significant to the consolidated financial statements.

Other Guarantees

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

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Contingent Obligations (Giveback)

A liability for potential repayment of previously received performance fees of \$42.1 million at September 30, 2014, is shown as accrued giveback obligations in the condensed consolidated balance sheets, representing the giveback obligation that would need to be paid if the funds were liquidated at their current fair values at September 30, 2014. However, the ultimate giveback obligation, if any, does not become realized until the end of a fund's life (see Note 2). The Partnership has recorded \$14.4 million and \$17.6 million of unbilled receivables from former and current employees and senior Carlyle professionals as of September 30, 2014 and December 31, 2013, respectively, related to giveback obligations, which are included in due from affiliates and other receivables, net in the accompanying condensed consolidated balance sheets. Current and former senior Carlyle professionals and employees are personally responsible for their giveback obligations. The receivables are collateralized by investments made by individual senior Carlyle professionals and employees in Carlyle-sponsored funds. In addition, \$386.5 million and \$345.1 million have been withheld from distributions of carried interest to senior Carlyle professionals and employees for potential giveback obligations as of September 30, 2014 and December 31, 2013, respectively. Such amounts are held by an entity not included in the accompanying condensed consolidated balance sheets.

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

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

Leases

The Partnership leases office space in various countries around the world and maintains its headquarters in Washington, D.C., where it leases its primary office space under a non-cancelable lease agreement expiring on July 31, 2026. Office leases in other locations expire in various years from 2014 through 2031. These leases are accounted for as operating leases. Rent expense was approximately \$13.3 million and \$12.5 million for the three months ended September 30, 2014 and 2013, respectively, and \$40.0 million and \$37.1 million for the nine months ended September 30, 2014 and 2013, respectively, and is included in general, administrative and other expenses in the condensed consolidated statements of operations.

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

2014	\$25.0
2015	65.7
2016	51.3
2017	48.2
2018	43.9
Thereafter	268.5
	\$502.6

Total minimum rentals to be received in the future under non-cancelable subleases as of September 30, 2014 were \$8.8 million.

The Partnership records contractual escalating minimum lease payments on a straight-line basis over the term of the lease. Deferred rent payable under the leases was \$36.1 million and \$34.8 million as of September 30, 2014 and December 31, 2013, respectively, and is included in accounts payable, accrued expenses and other liabilities in the

accompanying condensed consolidated balance sheets.

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Legal Matters

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

On February 14, 2008, a private class-action lawsuit challenging “club” bids and other alleged anti-competitive business practices was filed in the U.S. District Court for the District of Massachusetts (Police and Fire Retirement System of the City of Detroit v. Apollo Global Management, LLC, later renamed Kirk Dahl v. Bain Capital Partners LLC). The complaint alleges, among other things, that certain global alternative asset firms, including the Partnership, violated Section 1 of the Sherman Act by forming multi-sponsor consortiums for the purpose of bidding collectively in company buyout transactions in certain going private transactions and agreeing not to submit topping bids once such a consortium had announced a signed deal, which the plaintiffs allege constitutes a “conspiracy in restraint of trade.” All of Carlyle’s codefendants reached settlement agreements with plaintiffs. To avoid the risk and cost associated with continuing the litigation through trial, Carlyle entered into an agreement with plaintiffs on August 29, 2014 to settle all claims against Carlyle without any admission of liability. The Court granted preliminary approval of all the defendants’ settlements, including Carlyle’s, on September 29, 2014. A hearing on final approval of the settlements is scheduled for February 11, 2015. Carlyle Partners IV, L.P. (“CP IV”) and its affiliates will bear the costs of the settlement not covered by insurance. As a result, Carlyle’s performance fees from CP IV were reduced by \$19.3 million.

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

Carlyle Capital Corporation Limited (“CCC”) was a fund sponsored by Carlyle that invested in AAA-rated residential mortgage backed securities on a highly leveraged basis. In March of 2008, amidst turmoil throughout the mortgage markets and money markets, CCC filed for insolvency protection in Guernsey. Several different lawsuits developed from the CCC insolvency. Some of these lawsuits were dismissed, but two remain, which are described below. First, in November 2009, another CCC investor, National Industries Group (Holding) (“National Industries”) instituted legal proceedings on similar grounds in Kuwait’s Court of First Instance (National Industries Group v. Carlyle Group) seeking to recover losses incurred in connection with an investment in CCC. In July 2011, the Delaware Court of Chancery issued a decision restraining National Industries from proceeding in Kuwait on any CCC-related claims based on the forum selection clause in National Industries’ subscription agreement, which provided for exclusive jurisdiction in the Delaware courts. In September 2011, National Industries reissued its complaint in Kuwait naming CCC only, and reissued its complaint in January 2012 joining Carlyle Investment Management, L.L.C. as a defendant. In April 2013, the court in Kuwait dismissed National Industries’ claim without prejudice for failure to serve process. Hearings in the case and related to the case have nevertheless taken place on several occasions since that time, most recently in September 2013. Meanwhile, in August 2012, National Industries had filed a motion to vacate the

Delaware Court of Chancery's decision. The Partnership successfully opposed that motion and the Court's injunction remained in effect. In November 2012, National Industries appealed that decision to the Delaware Supreme Court. On May 29, 2013, the Delaware Supreme Court affirmed the Chancery Court's decision and upheld the 2011 injunction barring National Industries from filing or prosecuting any CCC-related action in any forum other than the courts of Delaware.

Second, the Guernsey liquidators who took control of CCC in March 2008 filed four suits on July 7, 2010 against Carlyle, certain of its affiliates and the former directors of CCC in the Delaware Chancery Court, the Royal Court of Guernsey,

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the Superior Court of the District of Columbia and the Supreme Court of New York, New York County (Carlyle Capital Corporation Limited v. Conway et al.) seeking \$1.0 billion in damages. They allege that Carlyle and the CCC board of directors were negligent, grossly negligent or willfully mismanaged the CCC investment program and breached certain fiduciary duties allegedly owed to CCC and its shareholders. The liquidators further allege (among other things) that the directors and Carlyle put the interests of Carlyle ahead of the interests of CCC and its shareholders and gave priority to preserving and enhancing Carlyle's reputation and its "brand" over the best interests of CCC. In July 2011, the Royal Court of Guernsey held that the case should be litigated in Delaware pursuant to the exclusive jurisdiction clause in the investment management agreement. That ruling was appealed by the liquidators, and in February 2012 was reversed by the Guernsey Court of Appeal, which held that the case should proceed in Guernsey. Defendants' attempts to appeal to the Privy Council were unsuccessful and the plaintiffs' case is proceeding in Guernsey. Two claims in that case, which sought the return of certain documents and other property purportedly belonging to CCC, were resolved by agreement of the parties and order of the Royal Court of Guernsey in December 2012. Carlyle has now completed its document production pursuant to that order. On July 24, 2013, plaintiffs filed an amended complaint, which contained further detail in support of the existing claims but no new defendants or claims. On December 20, 2013, defendants filed a defense to the amended complaint and on June 30, 2014 plaintiffs filed their reply. The Court has set the case schedule and trial is scheduled for the first available date after February 1, 2016. In addition, the liquidators' lawsuits in New York and the District of Columbia were dismissed in December 2011 without prejudice.

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

Other Contingencies

From 2007 to 2009, a Luxembourg subsidiary of CEREP I, a real estate fund, received proceeds from the sale of real estate located in Paris, France. The relevant French tax authorities have asserted that CEREP I was ineligible to claim certain exemptions from French tax under the Luxembourg-French tax treaty, and have issued a tax assessment seeking to collect approximately €97.0 million, consisting of taxes, interest and penalties. Additionally, the French Ministry of Justice has commenced an investigation regarding the legality under French law of claiming the exemptions under the tax treaty.

CEREP I and its subsidiaries are contesting the French tax assessment. In July 2012, the Partnership provided a guarantee to the French tax authorities as credit support for the €45.7 million tax assessment and in October 2012, placed an additional €4.4 million in escrow, in each case, related to CEREP I. The Partnership expects to incur costs on behalf of CEREP I and its related entities. The Partnership will attempt to recover any amounts advanced or paid from proceeds of subsequent portfolio dispositions by CEREP I. The amount of any unrecoverable costs that may be incurred by us is not estimable at this time. Commencing with the issuance of the credit support on behalf of CEREP I in July 2012, the Partnership consolidated the fund into its consolidated financial statements. As of September 30, 2014, CEREP I had accrued €75.0 million (\$94.7 million as of September 30, 2014) related to this contingency, which is included in other liabilities of Consolidated Funds in the condensed consolidated financial statements.

Indemnifications

In the normal course of business, the Partnership and its subsidiaries enter into contracts that contain a variety of representations and warranties and provide general indemnifications. The Partnership's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Partnership that have

not yet occurred. However, based on experience, the Partnership believes the risk of material loss to be remote.

Risks and Uncertainties

Carlyle's funds seek investment opportunities that offer the possibility of attaining substantial capital appreciation.

Certain events particular to each industry in which the underlying investees conduct their operations, as well as general economic conditions, may have a significant negative impact on the Partnership's investments and profitability. Such events

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are beyond the Partnership's control, and the likelihood that they may occur and the effect on the Partnership cannot be predicted.

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

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

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

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

The Partnership considers cash, cash equivalents, securities, receivables, equity-method investments, accounts payable, accrued expenses, other liabilities, loans payable, senior notes, assets and liabilities of Consolidated Funds and contingent and other consideration for acquisitions to be its financial instruments. Except for the senior notes, the carrying amounts reported in the condensed consolidated balance sheets for these financial instruments equal or closely approximate their fair values. The fair value of the senior notes is disclosed in Note 8.

Termination Costs

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Balance, beginning of period	\$9.2	\$14.0	\$10.6	\$13.6
Compensation expense	2.2	0.2	4.4	3.9
Contract termination costs	0.1	(0.3)) 0.2	—
Costs paid or settled	(2.0)) (3.2)) (5.7)) (6.8)
Balance, end of period	\$9.5	\$10.7	\$9.5	\$10.7

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12. Related Party Transactions

Due from Affiliates and Other Receivables, Net

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

	As of	
	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Unbilled receivable for giveback obligations from current and former employees	\$ 14.4	\$ 17.6
Notes receivable and accrued interest from affiliates	31.5	15.4
Other receivables from unconsolidated funds and affiliates, net	163.5	142.9
Total	\$209.4	\$175.9

Notes receivable represent loans that the Partnership has provided to certain unconsolidated funds to meet short-term obligations to purchase investments. Other receivables from certain of the unconsolidated funds and portfolio companies relate to management fees receivable from limited partners, advisory fees receivable and expenses paid on behalf of these entities. These costs represent costs related to the pursuit of actual or proposed investments, professional fees and expenses associated with the acquisition, holding and disposition of the investments. The affiliates are obligated at the discretion of the Partnership to reimburse the expenses. Based on management's determination, the Partnership accrues and charges interest on amounts due from affiliate accounts at interest rates ranging up to 7.19% as of September 30, 2014. The accrued and charged interest to the affiliates was not significant for any period presented.

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

Due to Affiliates

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

	As of	
	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Due to affiliates of Consolidated Funds	\$0.3	\$51.8
Due to non-consolidated affiliates	48.2	130.2
Performance-based contingent cash and equity consideration related to acquisitions	67.0	167.9
Amounts owed under the tax receivable agreement	99.0	33.1
Other	18.3	20.7
Total	\$232.8	\$403.7

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

Other Related Party Transactions

In the normal course of business, the Partnership has made use of aircraft owned by entities controlled by senior Carlyle professionals. The senior Carlyle professionals paid for their purchases of the aircraft and bear all operating, personnel and maintenance costs associated with their operation for personal use. Payment by the Partnership for the business use of these

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aircraft by senior Carlyle professionals and other employees is made at market rates, which totaled \$1.3 million and \$2.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$4.2 million and \$7.9 million for the nine months ended September 30, 2014 and 2013, respectively. These fees are included in general, administrative, and other expenses in the condensed consolidated statements of operations.

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

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

The Partnership does business with some of its portfolio companies; all such arrangements are on a negotiated basis. Substantially all revenue is earned from affiliates of Carlyle.

13. Income Taxes

The Partnership is generally organized as a series of pass through entities pursuant to the United States Internal Revenue Code. As such, the Partnership is not responsible for the tax liability due on certain income earned during the year. Such income is taxed at the unitholder and non-controlling interest holder level, and any income tax is the responsibility of the unitholders and is paid at that level. The Partnership's income tax benefit was \$5.9 million for the three months ended September 30, 2014 and income tax expense was \$17.9 million for the three months ended September 30, 2013. For the nine months ended September 30, 2014 and 2013, the Partnership's income tax expense was \$63.9 million and \$59.4 million, respectively.

In the normal course of business, the Partnership is subject to examination by federal and certain state, local and foreign tax regulators. As of September 30, 2014, the Partnership's U.S. federal income tax returns for the years 2011 through 2013 are open under the normal three-year statute of limitations and therefore subject to examination. State and local tax returns are generally subject to audit from 2009 to 2013. Foreign tax returns are generally subject to audit from 2007 to 2013. Certain of the Partnership's affiliates are currently under audit by federal, state and foreign tax authorities.

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

14. Non-controlling Interests in Consolidated Entities

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

	As of September 30, 2014	December 31, 2013
	(Dollars in millions)	
Non-Carlyle interests in Consolidated Funds	\$7,005.0	\$7,354.0
Non-Carlyle interests in majority-owned subsidiaries	251.9	279.6
	43.7	63.0

Non-controlling interest in carried interest and cash held for carried interest
distributions

Non-controlling interests in consolidated entities	\$7,300.6	\$7,696.6
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The components of the Partnership's non-controlling interests in income (loss) of consolidated entities are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Non-Carlyle interests in Consolidated Funds	\$333.4	\$(0.7)	) \$1,162.2	\$616.9
Non-Carlyle interests in majority-owned subsidiaries	(17.9	) (8.5	) (55.6	) 1.9
Non-controlling interest in carried interest and cash held for carried interest distributions	(11.2	) 4.4	1.1	24.3
Net income (loss) attributable to other non-controlling interests in consolidated entities	304.3	(4.8	) 1,107.7	643.1
Net loss attributable to partners' capital appropriated for CLOs	(112.5	) (0.5	) (288.1	) (389.5
Net income (loss) attributable to redeemable non-controlling interests in consolidated entities	(138.6	) (21.3	) (72.2	) 187.8
Non-controlling interests in income (loss) of consolidated entities	\$53.2	\$(26.6	) \$747.4	\$441.4

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

15. Earnings Per Common Unit

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

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Basic	Diluted	Basic	Diluted
The Carlyle Group L.P. weighted-average common units outstanding	66,474,689	66,474,689	61,422,816	61,422,816
Unvested deferred restricted common units	—	5,146,277	—	5,551,876
Contingently issuable Carlyle Holdings Partnership units	—	465,909	—	465,909
Weighted-average common units outstanding	66,474,689	72,086,875	61,422,816	67,440,601

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Basic	Diluted	Basic	Diluted
The Carlyle Group L.P. weighted-average common units outstanding	47,554,246	47,554,246	45,363,194	45,363,194
Unvested deferred restricted common units	—	2,569,500	—	3,914,608
Contingently issuable Carlyle Holdings Partnership units	—	931,818	—	931,818
Weighted-average common units outstanding	47,554,246	51,055,564	45,363,194	50,209,620

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

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

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

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

In computing the dilutive effect that the exchange of Carlyle Holdings partnership units would have on earnings per common unit, the Partnership considered that net income available to holders of common units would increase due to the elimination of non-controlling interests in Carlyle Holdings (including any tax impact). Based on these calculations, the incremental 228,449,290 and 225,057,658 of vested and unvested Carlyle Holdings partnership units for the three months ended September 30, 2014 and 2013, respectively, were antidilutive, and therefore have been excluded. For the nine months ended September 30, 2014 and 2013, respectively, the incremental 229,987,569 and 226,225,439 of vested and unvested Carlyle Holdings partnership units were antidilutive, and therefore have been excluded.

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

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Basic	Diluted	Basic	Diluted
Net income attributable to The Carlyle Group L.P.	\$25,400,000	\$25,400,000	\$69,500,000	\$69,500,000
Dilution of earnings due to participating securities with distribution rights	(304,000)	(290,600)	(1,077,500)	(1,105,300)
Net income per common unit	\$25,096,000	\$25,109,400	\$68,422,500	\$68,394,700
Weighted-average common units outstanding	66,474,689	72,086,875	61,422,816	67,440,601
Net income per common unit	\$0.38	\$0.35	\$1.11	\$1.01

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Basic	Diluted	Basic	Diluted
Net income attributable to The Carlyle Group L.P.	\$2,300,000	\$2,300,000	\$32,800,000	\$32,800,000
Dilution of earnings due to participating securities with distribution rights	(216,000)	(211,000)	(231,000)	(223,000)
Net income per common unit	\$2,084,000	\$2,089,000	\$32,569,000	\$32,577,000
Weighted-average common units outstanding	47,554,246	51,055,564	45,363,194	50,209,620
Net income per common unit	\$0.04	\$0.04	\$0.72	\$0.65

16. Equity-Based Compensation

In May 2012, Carlyle Group Management L.L.C., the general partner of the Partnership, adopted The Carlyle Group L.P. 2012 Equity Incentive Plan (the “Equity Incentive Plan”). The Equity Incentive Plan is a source of new equity-based awards permitting the Partnership to grant to Carlyle employees, directors of the Partnership’s general partner and consultants non-qualified options, unit appreciation rights, common units, restricted common units, deferred restricted common units, phantom restricted common units and other awards based on the Partnership’s common units and Carlyle Holdings partnership units. The total number of the Partnership’s common units and Carlyle Holdings partnership units which were initially available for grant under the Equity Incentive Plan was 30,450,000. The Equity Incentive Plan contains a provision which automatically increases the number of the Partnership’s common units and Carlyle Holdings partnership units available for grant based on a pre-determined formula; this increase occurs annually on January 1. As of January 1, 2014, pursuant to the formula, the total

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number of the Partnership's common units and Carlyle Holdings partnership units available for grant under the Equity Incentive Plan was 31,151,826.

Unvested Partnership Common Units

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

These newly issued common units were unvested at grant and vest over a period of up to five years. The unvested common units are accounted for as equity-based compensation in accordance with ASC Topic 718, Compensation – Stock Compensation (“ASC 718”). The grant-date fair value of the unvested common units is charged to equity-based compensation on a straight-line basis over the required service period. Additionally, the calculation of the expense assumes a forfeiture rate of up to 5%. For the three and nine months ended September 30, 2014, the Partnership recorded \$1.9 million and \$6.4 million in equity-based compensation expense associated with these awards, respectively. As of September 30, 2014, the total unrecognized equity-based compensation expense related to unvested common units, considering estimated forfeitures, is \$12.3 million, which is expected to be recognized over a weighted-average term of 1.4 years.

Unvested Carlyle Holdings Partnership Units

Unvested Carlyle Holdings partnership units are held by senior Carlyle professionals and other individuals engaged in Carlyle's business and generally vest ratably over a six-year period. The unvested Carlyle Holdings partnership units are accounted for as equity-based compensation in accordance with ASC 718. The grant-date fair value of the unvested Carlyle Holdings partnership units are charged to equity-based compensation expense on a straight-line basis over the required service period. Additionally, the calculation of the expense assumes a forfeiture rate of up to 2.5%. During the second quarter of 2013, the Partnership revised its estimated forfeiture rate to 2.5% from 7.5%. As a result, the Partnership recognized \$5.0 million of equity-based compensation expense during the three months ended September 30, 2013 for the cumulative effect of the change in this estimate. Additionally, the Partnership recognized \$47.9 million of equity-based compensation expense during the nine months ended September 30, 2013 related to the difference between the estimated forfeitures and actual forfeitures on Carlyle Holdings partnership units that vested in May 2013. The Partnership recorded equity-based compensation expense associated with these awards of \$43.3 million and \$58.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$148.8 million and \$189.6 million for the nine months ended September 30, 2014 and 2013, respectively. No tax benefits have been recorded related to the unvested Carlyle Holdings partnership units, as the vesting of these units does not result in a tax deduction to the corporate taxpayers.

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

As of September 30, 2014, the total unrecognized equity-based compensation expense related to unvested Carlyle Holdings partnership units, considering estimated forfeitures, is \$667.2 million, which is expected to be recognized over a weighted-average term of 3.6 years.

Deferred Restricted Common Units

The deferred restricted common units are unvested when granted and vest ratably over a service period, which ranges up to six years. The grant-date fair value of the deferred restricted common units granted to Carlyle's employees is charged to equity-based compensation expense on a straight-line basis over the required service period. Additionally, the calculation of the expense assumes a forfeiture rate that generally ranges from 5.0% to 15.0% and a per unit discount that generally ranges from 7.5% to 25.0%, as these unvested awards do not participate in any Partnership distributions. The Partnership recorded compensation expense of \$33.9 million and \$17.4 million for the three months ended September 30, 2014 and 2013, respectively, with \$4.2 million and \$2.0 million of corresponding deferred tax benefits, respectively. The Partnership recorded compensation expense of \$105.3 million and \$62.0 million for the nine months ended September 30, 2014 and 2013,

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respectively, with \$13.1 million and \$6.0 million of corresponding deferred tax benefits, respectively. As of September 30, 2014, the total unrecognized equity-based compensation expense related to unvested deferred restricted common units, considering estimated forfeitures, is \$397.2 million, which is expected to be recognized over a weighted-average term of 3.4 years.

Equity-based awards issued to non-employees are recognized as general, administrative and other expenses. The expense associated with the deferred restricted common units granted to NGP personnel by the Partnership are recognized as a reduction of the Partnership's investment income in NGP Management. The grant-date fair value of deferred restricted common units granted to Carlyle's non-employee directors is charged to expense on a straight-line basis over the vesting period. The cost of services received in exchange for an equity-based award issued to consultants is measured at each vesting date. Equity-based awards that require the satisfaction of future service criteria are recognized over the relevant service period, adjusted for estimated forfeitures of awards not expected to vest, based on the fair value of the award on each reporting date and adjusted for the actual fair value of the award at each vesting date. The expense for equity-based awards issued to non-employees was not significant for the three and nine months ended September 30, 2014 and 2013.

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

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

Phantom Deferred Restricted Common Units

The phantom deferred restricted common units are unvested when granted and vest ratably over a service period of three years. Upon vesting, the units will be settled in cash. As the phantom deferred restricted common units will be settled in cash, they are accounted for as liability awards. The fair value of the units is re-measured at each reporting period until settlement and charged to equity-based compensation expense over the vesting period. Additionally, the calculation of the expense assumes a forfeiture rate of 15.0%. For the three months ended September 30, 2014 and 2013, the Partnership recorded \$0.6 million and \$0.5 million in equity-based compensation expense associated with these awards, respectively, which is included in base compensation expense in the accompanying condensed consolidated financial statements. The Partnership recorded \$2.4 million and \$2.7 million in equity-based compensation expense associated with these awards for the nine months ended September 30, 2014 and 2013, respectively. The tax benefits recognized from these awards was not material during these periods. As of September 30, 2014, the total unrecognized equity-based compensation expense related to unvested phantom deferred restricted common units, considering estimated forfeitures, is \$2.2 million, which is expected to be recognized over a weighted-average term of 0.8 years.

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

Unvested Units	Carlyle Holdings		The Carlyle Group, L.P.				Cash Settled Awards	
	Partnership Units	Weighted-Average Grant Date Fair Value	Deferred Restricted Common Units	Weighted-Average Grant Date Fair Value	Unvested Common Units	Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value
Balance, December 31, 2013	47,202,803	\$22.13	16,250,174	\$23.91	872,060	\$26.78	208,511	\$22.12
Granted	—	\$—	7,867,703	\$29.68	—	\$—	12,204	\$34.81

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Vested	8,949,323	\$22.00	3,530,572	\$24.27	62,263	\$21.42	101,839	\$22.08
Forfeited	2,096,789	\$22.00	1,107,911	\$24.93	—	\$—	9,114	\$23.89
Balance, September 30, 2014	36,156,691	\$22.18	19,479,394	\$26.12	809,797	\$27.19	109,762	\$23.42

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17. Consolidation of a Real Estate Development Company

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

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

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

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

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

Urbplan is currently a party to various litigation, government investigations and proceedings, disputes and other potential claims. The Partnership does not believe it is probable that the outcome of any existing Urbplan litigation, disputes or other potential claims will materially affect the Partnership or these consolidated financial statements. From April 2013 (the time of the first additional investment into Urbplan) through September 30, 2014, \$171.2 million has been funded to Urbplan by the Partnership and its senior Carlyle professionals (net of gains from related foreign currency forward contracts). The Partnership has funded \$40.3 million of the \$171.2 million and the remaining \$130.9 million has been funded by senior Carlyle professionals indirectly through the Partnership. For the three months ended September 30, 2014, \$18.4 million was funded to Urbplan, of which the Partnership funded \$4.6 million and the senior Carlyle professionals funded \$13.8 million indirectly through the Partnership.

At this time, Urbplan is expected to require additional funding of approximately \$80 million to \$130 million to enable it to continue operations; however, the actual amount of additional funding necessary may exceed this estimate. While no contractual or other obligations exist to provide additional financial support to Urbplan, the Partnership and its senior Carlyle professionals expect to provide additional capital funding to Urbplan in the future and Urbplan will continue to seek capital funding from unaffiliated parties. The Partnership and its senior Carlyle professionals will evaluate the possibility of further capital infusions based on the circumstances at the time (including levels of third-party funding participation). It is anticipated

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that the Partnership would fund 25% and its senior Carlyle professionals would fund 75% indirectly through the Partnership of any additional investments made by the Partnership and its senior Carlyle professionals. The assets and liabilities recognized in the Partnership's condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013 related to Urbplan were as follows:

	As of September 30, 2014	December 31, 2013
	(Dollars in millions)	
Receivables and inventory of a consolidated real estate VIE:		
Customer and other receivables	\$120.1	\$110.3
Inventory costs in excess of billings and advances	58.8	70.1
	\$178.9	\$180.4
Other assets of a consolidated real estate VIE:		
Restricted investments	\$33.2	\$7.0
Fixed assets, net	2.3	2.2
Deferred tax assets	14.2	12.8
Other assets	12.7	38.1
	\$62.4	\$60.1
Loans payable of a consolidated real estate VIE, at fair value (principal amount of \$291.1 and \$305.3 as of September 30, 2014 and December 31, 2013, respectively)	\$160.1	\$122.1
Other liabilities of a consolidated real estate VIE:		
Accounts payable	\$23.9	\$25.4
Other liabilities	57.1	72.3
	\$81.0	\$97.7

The revenues and expenses recognized in the Partnership's condensed consolidated statements of operations for the three and nine months ended September 30, 2014 related to Urbplan were as follows:

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
	(Dollars in millions)	
Revenue of a consolidated real estate VIE		
Land development services	\$6.0	\$15.8
Investment income	7.2	11.4
	\$13.2	\$27.2
Interest and other expenses of a consolidated real estate VIE:		
Costs of products sold and services rendered	\$8.8	\$25.3
Interest expense	8.6	30.3
Change in fair value of loans payable	9.1	35.4
Compensation and benefits	3.0	8.5
G&A and other expenses	8.8	30.0
	\$38.3	\$129.5

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

Customer and other receivables – This balance consists primarily of amounts owed for land development services using the completed contract method. Customer receivables accrue interest at rates ranging from 9% to 12% per year and are

secured by the underlying real estate. Substantially all receivables are pledged as collateral for Urbplan's borrowings.
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value of the receivables includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on the balances. Urbplan calculates this allowance based on its history of write-offs, the level of past-due accounts based on the contractual terms of the receivables, and its relationships with, and the economic status of, Urbplan's customers.

Inventory costs in excess of billings and advances – This balance consists primarily of capitalized land development cost, net of approximately \$210.5 million and \$176.1 million of customer advances received as of September 30, 2014 and December 31, 2013, respectively. Urbplan records valuation adjustments on inventory when events and circumstances indicate that the inventory may be impaired and when the cash flows estimated to be generated by the real estate project are less than its carrying amount. Real estate projects that demonstrate potential impairment indicators are tested for impairment by Urbplan by comparing the expected undiscounted cash flows for the real estate project to its carrying value. For those real estate projects whose carrying values exceed the expected undiscounted cash flows, Urbplan estimates the fair value of the real estate projects. Impairment charges are recorded if the fair value of the inventory is less than its carrying value. The estimates used in the determination of the estimated fair value of the real estate projects were based on factors known to Urbplan at the time such estimates were made and the expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated fair value deteriorate in the future, Urbplan may be required to recognize additional impairment charges and write-offs related to real estate projects.

Loans payable of a consolidated real estate VIE – This balance consists of Urbplan's borrowings for its real estate development activities. The estimated fair value approximates 55% of the outstanding principal amounts of the loans. The fair value of the loans was based on discounted cash flow analyses which considered the liquidity and current financial condition of Urbplan and applicable discount rates. The Partnership has elected to re-measure the loans at fair value at each reporting period through the term of the loans. The principal amounts of the loans accrue interest at a variable rate based on an index plus an applicable margin. Interest rates are based on: (i) CDI plus a margin ranging from 4.0% to 7.4% (14.8% to 18.2% as of September 30, 2014); (ii) IGP-M plus a margin of 12.0% (16.9% as of September 30, 2014); or (iii) IPCA plus a margin ranging from 10.0% to 13.5% (16.5% to 20.0% as of September 30, 2014). Outstanding principal amounts on the loans based on current contractual terms are payable as follows (Dollars in millions):

2014	\$26.2
2015	33.9
2016	32.5
2017	26.4
2018	22.9
Thereafter	149.2
	\$291.1

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

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

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

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

Interest and other expenses of a consolidated real estate VIE – This balance consists primarily of interest expense on Urbplan’s borrowings, general and administrative expenses, compensation and benefits, and costs associated with land development services. Also included in this caption is the change in the Partnership’s estimate of the fair value of Urbplan’s

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loans payable during the period. Interest expense is recorded on Urbplan's borrowings at variable rates as defined. Costs related to Urbplan's land development services activities are capitalized until the services are complete. Costs associated with advertising, marketing and other selling activities are expensed when incurred.

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

As of September 30, 2014, Urbplan had outstanding commitments for land development services with an estimated \$145.5 million of future costs to be incurred.

18. Segment Reporting

Carlyle conducts its operations through four reportable segments:

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

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

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

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

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

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

Distributable earnings ("DE") is a component of ENI and is used to assess performance and amounts potentially available for distribution. Distributable earnings differs from income (loss) before provision for income taxes

computed in accordance with U.S. GAAP in that it adjusts for the items included in the calculation of ENI and also adjusts ENI for unrealized performance fees, unrealized investment income, the corresponding unrealized performance fee compensation expense and equity-based compensation.

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

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

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

	Three Months Ended September 30, 2014				
	Corporate Private Equity (Dollars in millions)	Global Market Strategies	Real Assets	Solutions	Total
Segment Revenues					
Fund level fee revenues					
Fund management fees	\$151.5	\$65.6	\$55.7	\$46.0	\$318.8
Portfolio advisory fees, net	3.8	0.2	0.1	—	4.1
Transaction fees, net	17.0	0.2	0.6	—	17.8
Total fund level fee revenues	172.3	66.0	56.4	46.0	340.7
Performance fees					
Realized	125.0	11.3	28.4	10.6	175.3
Unrealized	100.8	(10.8)	9.5	(50.9)	48.6
Total performance fees	225.8	0.5	37.9	(40.3)	223.9
Investment income (loss)					
Realized	6.4	4.1	(13.2)	—	(2.7)
Unrealized	3.8	(4.3)	6.7	—	6.2
Total investment income (loss)	10.2	(0.2)	(6.5)	—	3.5
Interest and other income	4.7	1.9	1.4	0.5	8.5
Total revenues	413.0	68.2	89.2	6.2	576.6
Segment Expenses					
Compensation and benefits					
Direct base compensation	67.0	29.9	20.7	20.7	138.3
Indirect base compensation	25.9	6.9	9.9	4.3	47.0
Equity-based compensation	12.9	4.0	5.4	1.5	23.8
Performance fee related					
Realized	52.7	6.1	9.9	7.2	75.9
Unrealized	49.4	2.6	8.0	(36.2)	23.8
Total compensation and benefits	207.9	49.5	53.9	(2.5)	308.8
General, administrative, and other indirect expenses	35.5	14.0	21.1	11.5	82.1
Depreciation and amortization expense	2.7	1.0	0.8	0.9	5.4
Interest expense	7.9	2.5	2.6	1.5	14.5
Total expenses	254.0	67.0	78.4	11.4	410.8
Economic Net Income (Loss)	\$159.0	\$1.2	\$10.8	\$(5.2)	\$165.8
(-) Net Performance Fees	123.7	(8.2)	20.0	(11.3)	124.2
(-) Investment Income (Loss)	10.2	(0.2)	(6.5)	—	3.5
(+) Equity-based Compensation	12.9	4.0	5.4	1.5	23.8
(=) Fee Related Earnings	\$38.0	\$13.6	\$2.7	\$7.6	\$61.9
(+) Realized Net Performance Fees	72.3	5.2	18.5	3.4	99.4
(+) Realized Investment Income (Loss)	6.4	4.1	(13.2)	—	(2.7)
(=) Distributable Earnings	\$116.7	\$22.9	\$8.0	\$11.0	\$158.6

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	September 30, 2014 and the Nine Months Then Ended				
	Corporate Private Equity	Global Market Strategies	Real Assets	Solutions	Total
(Dollars in millions)					
Segment Revenues					
Fund level fee revenues					
Fund management fees	\$428.5	\$192.9	\$165.6	\$137.4	\$924.4
Portfolio advisory fees, net	10.6	0.4	0.6	—	11.6
Transaction fees, net	49.6	0.2	0.7	—	50.5
Total fund level fee revenues	488.7	193.5	166.9	137.4	986.5
Performance fees					
Realized	747.4	26.3	38.3	23.5	835.5
Unrealized	237.5	84.3	69.9	150.9	542.6
Total performance fees	984.9	110.6	108.2	174.4	1,378.1
Investment income (loss)					
Realized	10.3	6.8	(3.0	) —	14.1
Unrealized	13.2	(1.2	) (35.5	) 0.3	(23.2
Total investment income (loss)	23.5	5.6	(38.5	) 0.3	(9.1
Interest and other income	8.7	4.7	3.3	1.0	17.7
Total revenues	1,505.8	314.4	239.9	313.1	2,373.2
Segment Expenses					
Compensation and benefits					
Direct base compensation	189.4	83.7	60.7	62.4	396.2
Indirect base compensation	73.4	18.9	35.9	12.1	140.3
Equity-based compensation	30.1	9.9	14.0	3.3	57.3
Performance fee related					
Realized	326.4	12.4	10.6	14.0	363.4
Unrealized	122.1	39.0	39.2	121.9	322.2
Total compensation and benefits	741.4	163.9	160.4	213.7	1,279.4
General, administrative, and other indirect expenses					
Depreciation and amortization expense	8.1	2.9	2.6	2.8	16.4
Interest expense	22.6	7.2	7.3	4.1	41.2
Total expenses	880.7	212.6	222.6	251.9	1,567.8
Economic Net Income	\$625.1	\$101.8	\$17.3	\$61.2	\$805.4
(-) Net Performance Fees	536.4	59.2	58.4	38.5	692.5
(-) Investment Income (Loss)	23.5	5.6	(38.5	) 0.3	(9.1
(+) Equity-based Compensation	30.1	9.9	14.0	3.3	57.3
(=) Fee Related Earnings	\$95.3	\$46.9	\$11.4	\$25.7	\$179.3
(+) Realized Net Performance Fees	421.0	13.9	27.7	9.5	472.1
(+) Realized Investment Income (Loss)	10.3	6.8	(3.0	) —	14.1
(=) Distributable Earnings	\$526.6	\$67.6	\$36.1	\$35.2	\$665.5
Segment assets as of September 30, 2014	\$4,010.2	\$1,046.0	\$1,684.8	\$854.1	\$7,595.1

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Notes to the Condensed Consolidated Financial Statements
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The following tables present the financial data for the Partnership's four reportable segments for the three and nine months ended September 30, 2013:

	Three Months Ended September 30, 2013					
	Corporate Private Equity (Dollars in millions)	Global Market Strategies	Real Assets	Solutions	Total	
Segment Revenues						
Fund level fee revenues						
Fund management fees	\$ 131.0	\$ 65.7	\$ 47.3	\$ 37.2	\$ 281.2	
Portfolio advisory fees, net	4.7	0.1	0.2	—	5.0	
Transaction fees, net	5.7	—	0.2	—	5.9	
Total fund level fee revenues	141.4	65.8	47.7	37.2	292.1	
Performance fees						
Realized	79.1	5.8	12.5	5.7	103.1	
Unrealized	182.2	(13.6	) 12.1	38.9	219.6
Total performance fees	261.3	(7.8	) 24.6	44.6	322.7
Investment income (loss)						
Realized	1.6	2.0	(4.3) —	(0.7)
Unrealized	5.5	3.2	(10.9) 0.1	(2.1)
Total investment income (loss)	7.1	5.2	(15.2) 0.1	(2.8)
Interest and other income	1.5	0.7	0.4	—	2.6	
Total revenues	411.3	63.9	57.5	81.9	614.6	
Segment Expenses						
Compensation and benefits						
Direct base compensation	53.9	23.6	17.1	16.8	111.4	
Indirect base compensation	27.6	4.6	7.9	1.1	41.2	
Equity-based compensation	2.1	0.6	1.2	0.1	4.0	
Performance fee related						
Realized	34.6	0.8	3.8	2.6	41.8	
Unrealized	79.8	3.1	11.1	29.7	123.7	
Total compensation and benefits	198.0	32.7	41.1	50.3	322.1	
General, administrative, and other indirect expenses	43.7	17.8	12.8	5.7	80.0	
Depreciation and amortization expense	3.3	1.2	1.0	0.7	6.2	
Interest expense	6.9	2.1	2.2	0.6	11.8	
Total expenses	251.9	53.8	57.1	57.3	420.1	
Economic Net Income	\$ 159.4	\$ 10.1	\$ 0.4	\$ 24.6	\$ 194.5	
(-) Net Performance Fees	146.9	(11.7	) 9.7	12.3	157.2
(-) Investment Income (loss)	7.1	5.2	(15.2) 0.1	(2.8)
(+) Equity-based Compensation	2.1	0.6	1.2	0.1	4.0	
(=) Fee Related Earnings	\$ 7.5	\$ 17.2	\$ 7.1	\$ 12.3	\$ 44.1	
(+) Realized Net Performance Fees	44.5	5.0	8.7	3.1	61.3	
(+) Realized Investment Income (loss)	1.6	2.0	(4.3) —	(0.7)

(=) Distributable Earnings	\$53.6	\$24.2	\$11.5	\$15.4	\$104.7
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	Nine Months Ended September 30, 2013				
	Corporate Private Equity	Global Market Strategies	Real Assets	Solutions	Total
	(Dollars in millions)				
Segment Revenues					
Fund level fee revenues					
Fund management fees	\$348.1	\$205.8	\$140.7	\$76.6	\$771.2
Portfolio advisory fees, net	13.7	0.8	0.8	—	15.3
Transaction fees, net	20.1	0.1	2.9	—	23.1
Total fund level fee revenues	381.9	206.7	144.4	76.6	809.6
Performance fees					
Realized	442.8	47.8	44.1	9.9	544.6
Unrealized	421.0	73.7	28.2	81.5	604.4
Total performance fees	863.8	121.5	72.3	91.4	1,149.0
Investment income (loss)					
Realized	5.1	16.1	(16.6	) —	4.6
Unrealized	10.7	(3.6	) (4.7	) 0.1	2.5
Total investment income (loss)	15.8	12.5	(21.3	) 0.1	7.1
Interest and other income	4.2	3.3	1.3	0.2	9.0
Total revenues	1,265.7	344.0	196.7	168.3	1,974.7
Segment Expenses					
Compensation and benefits					
Direct base compensation	158.9	74.2	53.2	34.1	320.4
Indirect base compensation	69.4	14.9	21.8	3.7	109.8
Equity-based compensation	5.9	1.6	3.0	0.3	10.8
Performance fee related					
Realized	201.3	17.2	0.5	5.0	224.0
Unrealized	172.2	18.9	37.6	61.9	290.6
Total compensation and benefits	607.7	126.8	116.1	105.0	955.6
General, administrative, and other indirect expenses	124.3	46.8	39.7	13.5	224.3
Depreciation and amortization expense	10.2	3.5	3.3	1.7	18.7
Interest expense	18.5	5.7	6.0	1.7	31.9
Total expenses	760.7	182.8	165.1	121.9	1,230.5
Economic Net Income	\$505.0	\$161.2	\$31.6	\$46.4	\$744.2
(-) Net Performance Fees	490.3	85.4	34.2	24.5	634.4
(-) Investment Income (Loss)	15.8	12.5	(21.3	) 0.1	7.1
(+) Equity-based Compensation	5.9	1.6	3.0	0.3	10.8
(=) Fee Related Earnings	\$4.8	\$64.9	\$21.7	\$22.1	\$113.5
(+) Realized Net Performance Fees	241.5	30.6	43.6	4.9	320.6
(+) Realized Investment Income (Loss)	5.1	16.1	(16.6) —	4.6
(=) Distributable Earnings	\$251.4	\$111.6	\$48.7	\$27.0	\$438.7

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

	Three Months Ended September 30, 2014			
	Total Reportable Segments	Consolidated Funds	Reconciling Items	Carlyle Consolidated
	(Dollars in millions)			
Revenues	\$576.6	\$234.1	\$(55.7)	(a) \$755.0
Expenses	\$410.8	\$283.9	\$10.4	(b) \$705.1
Other income	\$—	\$127.4	\$(1.9)	(c) \$125.5
Economic net income	\$165.8	\$77.6	\$(68.0)	(d) \$175.4
	Three Months Ended September 30, 2013			
	Total Reportable Segments	Consolidated Funds	Reconciling Items	Carlyle Consolidated
	(Dollars in millions)			
Revenues	\$614.6	\$302.0	\$(28.5)	(a) \$888.1
Expenses	\$420.1	\$265.9	\$128.7	(b) \$814.7
Other loss	\$—	\$(86.2)	\$4.2	(c) \$(82.0)
Economic net income (loss)	\$194.5	\$(50.1)	\$(153.0)	(d) \$(8.6)

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

	September 30, 2014 and the Nine Months Then Ended			
	Total Reportable Segments	Consolidated Funds	Reconciling Items	Carlyle Consolidated
	(Dollars in millions)			
Revenues	\$2,373.2	\$728.5	\$(60.5)	(a) \$3,041.2
Expenses	\$1,567.8	\$940.0	\$338.9	(b) \$2,846.7
Other income	\$—	\$996.9	\$(2.4)	(c) \$994.5
Economic net income	\$805.4	\$785.4	\$(401.8)	(d) \$1,189.0
Total assets	\$7,595.1	\$30,264.5	\$(193.3)	(e) \$37,666.3
	Nine Months Ended September 30, 2013			
	Total Reportable Segments	Consolidated Funds	Reconciling Items	Carlyle Consolidated
	(Dollars in millions)			
Revenues	\$1,974.7	\$823.3	\$4.4	(a) \$2,802.4
Expenses	\$1,230.5	\$867.4	\$394.9	(b) \$2,492.8
Other income	\$—	\$422.6	\$(2.5)	(c) \$420.1
Economic net income	\$744.2	\$378.5	\$(393.0)	(d) \$729.7

(a) The Revenues adjustment principally represents fund management and performance fees earned from the Consolidated Funds which were eliminated in consolidation to arrive at the Partnership's total revenues, adjustments for amounts attributable to non-controlling interests in consolidated entities, adjustments related to expenses associated with the investments in NGP Management and its affiliates that are included in operating

captions or are excluded from the segment results, adjustments to reflect the Partnership's share of Urbplan's net losses as a component of investment

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Equity-based compensation issued in conjunction with the initial public offering, acquisitions and strategic investments	\$56.3	\$76.2	\$209.7	\$251.4
Acquisition related charges and amortization of intangibles	24.5	94.5	166.6	209.5
Other non-operating (income) expenses	(39.6	) 7.6	(14.0	) 1.9
Non-Carlyle economic interests in acquired business	11.9	0.1	156.5	123.5
Other adjustments	1.6	(1.8	) 2.5	4.8
Elimination of expenses of Consolidated Funds	(44.3	) (47.9	) (182.4	) (196.2
	\$10.4	\$128.7	\$338.9	\$394.9

(c) The Other Income (Loss) adjustment results from the Consolidated Funds which were eliminated in consolidation to arrive at the Partnership's total Other Income (Loss).

(d) The following table is a reconciliation of Income Before Provision for Income Taxes to Economic Net Income, to Fee Related Earnings, and to Distributable Earnings (Dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Income (loss) before provision for income taxes	\$175.4	\$(8.6	) \$1,189.0	\$729.7
Adjustments:				
Equity-based compensation issued in conjunction with the initial public offering, acquisitions and strategic investments	56.3	76.2	209.7	251.4
Acquisition related charges and amortization of intangibles	24.5	94.5	166.6	209.5
Other non-operating (income) expenses	(39.6	) 7.6	(14.0	) 1.9
Net (income) loss attributable to non-controlling interests in Consolidated entities	(53.2	) 26.6	(747.4	) (441.4
Other adjustments ⁽¹⁾	2.4	(1.8	) 1.5	(6.9
Economic Net Income	\$165.8	\$194.5	\$805.4	\$744.2
Net performance fees ⁽²⁾	124.2	157.2	692.5	634.4
Investment income (loss) ⁽²⁾	3.5	(2.8) (9.1) 7.1
Equity-based compensation	23.8	4.0	57.3	10.8

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Fee Related Earnings	\$61.9	\$44.1	\$179.3	\$113.5
Realized performance fees, net of related compensation	99.4	61.3	472.1	320.6
Realized investment income (loss)	(2.7) (0.7) 14.1	4.6
Distributable Earnings	\$158.6	\$104.7	\$665.5	\$438.7

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
Losses associated with debt refinancing activities	\$—	\$—	\$—	\$1.9	
Severance and lease terminations	2.3	(0.1	) 4.6	3.9	
Provision (benefit) for income taxes attributable to non-controlling interests in consolidated entities	0.8	—	(1.0	) (11.7)
Other adjustments	(0.7	) (1.7	) (2.1	) (1.0)
	\$2.4	\$ (1.8	) \$1.5	\$ (6.9)

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

	Three Months Ended September 30, 2014			
	Carlyle Consolidated	Adjustments ⁽³⁾	Total Reportable Segments	
	(Dollars in millions)			
Performance fees				
Realized	\$176.9	\$(1.6	) \$175.3
Unrealized	10.5	38.1	48.6	
Total performance fees	187.4	36.5	223.9	
Performance fee related compensation expense				
Realized	78.4	(2.5	) 75.9
Unrealized	(14.3	) 38.1	23.8
Total performance fee related compensation expense	64.1	35.6	99.7	
Net performance fees				
Realized	98.5	0.9	99.4	
Unrealized	24.8	—	24.8	
Total net performance fees	\$123.3	\$0.9	\$124.2	
Investment income (loss)				
Realized	\$(0.5) \$(2.2) \$(2.7)
Unrealized	4.3	1.9	6.2	
Investment income (loss)	\$3.8	\$(0.3) \$3.5	

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	Three Months Ended September 30, 2013			
	Carlyle Consolidated	Adjustments ⁽³⁾	Total Reportable Segments	
	(Dollars in millions)			
Performance fees				
Realized	\$108.6	\$(5.5	) \$103.1
Unrealized	211.9	7.7	219.6	
Total performance fees	320.5	2.2	322.7	
Performance fee related compensation expense				
Realized	45.4	(3.6	) 41.8
Unrealized	113.5	10.2	123.7	
Total performance fee related compensation expense	158.9	6.6	165.5	
Net performance fees				
Realized	63.2	(1.9	) 61.3
Unrealized	98.4	(2.5	) 95.9
Total net performance fees	\$161.6	\$(4.4	) \$157.2
Investment income (loss)				
Realized	\$(3.1) \$2.4	\$ (0.7)
Unrealized	8.1	(10.2) (2.1)
Total investment income (loss)	\$5.0	\$(7.8) \$(2.8)
	Nine Months Ended September 30, 2014			
	Carlyle Consolidated	Adjustments ⁽³⁾	Total Reportable Segments	
	(Dollars in millions)			
Performance fees				
Realized	\$843.9	\$(8.4	) \$835.5
Unrealized	506.4	36.2	542.6	
Total performance fees	1,350.3	27.8	1,378.1	
Performance fee related compensation expense				
Realized	368.3	(4.9	) 363.4
Unrealized	316.3	5.9	322.2	
Total performance fee related compensation expense	684.6	1.0	685.6	
Net performance fees				
Realized	475.6	(3.5	) 472.1
Unrealized	190.1	30.3	220.4	
Total net performance fees	\$665.7	\$26.8	\$692.5	
Investment income (loss)				
Realized	\$29.4	\$(15.3) \$14.1	
Unrealized	4.2	(27.4) (23.2)
Investment income (loss)	\$33.6	\$(42.7) \$(9.1)

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	Nine Months Ended September 30, 2013		
	Carlyle Consolidated	Adjustments ⁽³⁾	Total Reportable Segments
	(Dollars in millions)		
Performance fees			
Realized	\$564.6	\$(20.0	) \$544.6
Unrealized	657.4	(53.0	) 604.4
Total performance fees	1,222.0	(73.0	) 1,149.0
Performance fee related compensation expense			
Realized	232.2	(8.2	) 224.0
Unrealized	374.5	(83.9	) 290.6
Total performance fee related compensation expense	606.7	(92.1	) 514.6
Net performance fees			
Realized	332.4	(11.8	) 320.6
Unrealized	282.9	30.9	313.8
Total net performance fees	\$615.3	\$19.1	\$634.4
Investment income (loss)			
Realized	\$5.4	\$(0.8	) \$4.6
Unrealized	11.0	(8.5	) 2.5
Total investment income (loss)	\$16.4	\$(9.3	) \$7.1

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

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

19. Subsequent Events

In October 2014, the Board of Directors of the general partner of the Partnership declared a quarterly distribution of \$0.16 per common unit to common unit holders of record at the close of business on November 10, 2014, payable on November 21, 2014.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

20. Supplemental Financial Information

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

	As of September 30, 2014			
	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
	(Dollars in millions)			
Assets				
Cash and cash equivalents	\$1,394.2	\$—	\$—	\$1,394.2
Cash and cash equivalents held at Consolidated Funds	—	1,922.3	—	1,922.3
Restricted cash	64.6	—	—	64.6
Restricted cash and securities of Consolidated Funds	—	14.9	—	14.9
Accrued performance fees	3,759.1	—	(15.7)	3,743.4
Investments	1,148.8	—	(163.6)	985.2
Investments of Consolidated Funds	—	27,880.9	1.0	27,881.9
Due from affiliates and other receivables, net	224.4	—	(15.0)	209.4
Due from affiliates and other receivables of Consolidated Funds, net	—	443.4	—	443.4
Receivables and inventory of a consolidated real estate VIE	178.9	—	—	178.9
Fixed assets, net	67.3	—	—	67.3
Deposits and other	54.0	3.0	—	57.0
Other assets of a consolidated real estate VIE	62.4	—	—	62.4
Intangible assets, net	506.4	—	—	506.4
Deferred tax assets	135.0	—	—	135.0
Total assets	\$7,595.1	\$30,264.5	\$(193.3)	\$37,666.3
Liabilities and partners' capital				
Loans payable	\$40.9	\$—	\$—	\$40.9
3.875% senior notes due 2023	499.9	—	—	499.9
5.625% senior notes due 2043	606.9	—	—	606.9
Loans payable of Consolidated Funds	—	16,560.4	(139.5)	16,420.9
Loans payable of a consolidated real estate VIE at fair value (principal amount of \$291.1)	160.1	—	—	160.1
Accounts payable, accrued expenses and other liabilities	437.5	—	(52.4)	385.1
Accrued compensation and benefits	2,365.5	—	—	2,365.5
Due to affiliates	232.5	0.7	(0.4)	232.8
Deferred revenue	261.8	1.3	—	263.1
Deferred tax liabilities	116.3	—	—	116.3
Other liabilities of Consolidated Funds	—	1,582.9	(48.1)	1,534.8
Other liabilities of a consolidated real estate VIE	81.0	—	—	81.0
Accrued giveback obligations	51.5	—	(9.4)	42.1
Total liabilities	4,853.9	18,145.3	(249.8)	22,749.4
	9.5	5,006.2	4.3	5,020.0

Redeemable non-controlling interests in consolidated entities

Partners' capital	544.8	(61.7	) 61.7	544.8
Accumulated other comprehensive income (loss)	(20.4	) 4.9	(4.8	) (20.3
Partners' capital appropriated for Consolidated Funds	—	164.8	(4.7	) 160.1
Non-controlling interests in consolidated entities	295.6	7,005.0	—	7,300.6
Non-controlling interests in Carlyle Holdings	1,911.7	—	—	1,911.7
Total partners' capital	2,731.7	7,113.0	52.2	9,896.9
Total liabilities and partners' capital	\$7,595.1	\$30,264.5	\$(193.3) \$37,666.3

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The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	As of December 31, 2013			
	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
	(Dollars in millions)			
Assets				
Cash and cash equivalents	\$966.6	\$—	\$—	\$966.6
Cash and cash equivalents held at Consolidated Funds	—	1,402.7	—	1,402.7
Restricted cash	129.9	—	—	129.9
Restricted cash and securities of Consolidated Funds	—	25.7	—	25.7
Accrued performance fees	3,724.7	—	(71.1	) 3,653.6
Investments	867.1	—	(101.8	) 765.3
Investments of Consolidated Funds	—	26,846.8	39.6	26,886.4
Due from affiliates and other receivables, net	188.8	—	(12.9	) 175.9
Due from affiliates and other receivables of Consolidated Funds, net	—	626.2	—	626.2
Receivables and inventory of a consolidated real estate VIE	180.4	—	—	180.4
Fixed assets, net	68.8	—	—	68.8
Deposits and other	35.6	2.9	—	38.5
Other assets of a consolidated real estate VIE	60.1	—	—	60.1
Intangible assets, net	582.8	—	—	582.8
Deferred tax assets	59.4	—	—	59.4
Total assets	\$6,864.2	\$28,904.3	\$(146.2	) \$35,622.3
Liabilities and partners' capital				
Loans payable	\$42.4	\$—	\$—	\$42.4
3.875% senior notes due 2023	499.8	—	—	499.8
5.625% senior notes due 2043	398.4	—	—	398.4
Loans payable of Consolidated Funds	—	15,321.4	(100.7	) 15,220.7
Loans payable of a consolidated real estate VIE at fair value (principal amount of \$305.3)	122.1	—	—	122.1
Accounts payable, accrued expenses and other liabilities	310.9	—	(45.8	) 265.1
Accrued compensation and benefits	2,253.0	—	—	2,253.0
Due to affiliates	352.4	51.8	(0.5	) 403.7
Deferred revenue	62.8	1.3	—	64.1
Deferred tax liabilities	103.6	—	—	103.6
Other liabilities of Consolidated Funds	—	1,445.4	(62.7	) 1,382.7
Other liabilities of a consolidated real estate VIE	97.7	—	—	97.7
Accrued giveback obligations	49.9	—	(10.3	) 39.6
Total liabilities	4,293.0	16,819.9	(220.0	) 20,892.9
Redeemable non-controlling interests in consolidated entities	11.4	4,340.6	—	4,352.0
Partners' capital	357.1	(76.6	) 76.6	357.1
Accumulated other comprehensive income (loss)	(11.2	) (0.5	) 0.5	(11.2
Partners' capital appropriated for Consolidated Funds	—	466.9	(3.3) 463.6
Non-controlling interests in consolidated entities	342.6	7,354.0	—	7,696.6

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Non-controlling interests in Carlyle Holdings	1,871.3	—	—	1,871.3
Total partners' capital	2,559.8	7,743.8	73.8	10,377.4
Total liabilities and partners' capital	\$6,864.2	\$28,904.3	\$(146.2)	\$35,622.3

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The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	Three Months Ended September 30, 2014			
	Consolidated Operating Entities (Dollars in millions)	Consolidated Funds	Eliminations	Consolidated
Revenues				
Fund management fees	\$354.6	\$—	\$(47.2	) \$307.4
Performance fees				
Realized	179.1	—	(2.2	) 176.9
Unrealized	(4.3	) —	14.8	10.5
Total performance fees	174.8	—	12.6	187.4
Investment income (loss)				
Realized	1.6	—	(2.1	) (0.5
Unrealized	5.0	—	(0.7	) 4.3
Investment income (loss)	6.6	—	(2.8	) 3.8
Interest and other income	9.6	—	(0.5	) 9.1
Interest and other income of Consolidated Funds	—	234.1	—	234.1
Revenue of a consolidated real estate VIE	13.2	—	—	13.2
Total revenues	558.8	234.1	(37.9	) 755.0
Expenses				
Compensation and benefits				
Base compensation	190.7	—	—	190.7
Equity-based compensation	79.7	—	—	79.7
Performance fee related				
Realized	78.4	—	—	78.4
Unrealized	(14.3	) —	—	(14.3
Total compensation and benefits	334.5	—	—	334.5
General, administrative and other expenses	117.9	—	(0.5	) 117.4
Interest	14.4	—	—	14.4
Interest and other expenses of Consolidated Funds	—	283.9	(43.8	) 240.1
Interest and other expenses of a consolidated real estate VIE	38.3	—	—	38.3
Other non-operating income	(39.6	) —	—	(39.6
Total expenses	465.5	283.9	(44.3	) 705.1
Other income				
Net investment gains of Consolidated Funds	—	127.4	(1.9	) 125.5
Income before provision for income taxes	93.3	77.6	4.5	175.4
Benefit for income taxes	(5.9	) —	—	(5.9
Net income	99.2	77.6	4.5	181.3
Net income (loss) attributable to non-controlling interests in consolidated entities	(28.9	) —	82.1	53.2
Net income attributable to Carlyle Holdings	128.1	77.6	(77.6	) 128.1
Net income attributable to non-controlling interests in Carlyle Holdings	102.7	—	—	102.7

Net income attributable to The Carlyle Group L.P.	\$25.4	\$77.6	\$(77.6) \$25.4
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The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	Nine Months Ended September 30, 2014			
	Consolidated Operating Entities (Dollars in millions)	Consolidated Funds	Eliminations	Consolidated
Revenues				
Fund management fees	\$1,023.3	\$—	\$(138.3	) \$885.0
Performance fees				
Realized	859.3	—	(15.4	) 843.9
Unrealized	515.9	—	(9.5	) 506.4
Total performance fees	1,375.2	—	(24.9	) 1,350.3
Investment income (loss)				
Realized	34.8	—	(5.4	) 29.4
Unrealized	(1.2	) —	5.4	4.2
Investment income (loss)	33.6	—	—	33.6
Interest and other income	18.7	—	(2.1	) 16.6
Interest and other income of Consolidated Funds	—	728.5	—	728.5
Revenue of a consolidated real estate VIE	27.2	—	—	27.2
Total revenues	2,478.0	728.5	(165.3	) 3,041.2
Expenses				
Compensation and benefits				
Base compensation	615.8	—	—	615.8
Equity-based compensation	262.9	—	—	262.9
Performance fee related				
Realized	368.3	—	—	368.3
Unrealized	316.3	—	—	316.3
Total compensation and benefits	1,563.3	—	—	1,563.3
General, administrative and other expenses	369.2	—	1.2	370.4
Interest	41.1	—	—	41.1
Interest and other expenses of Consolidated Funds	—	940.0	(183.6	) 756.4
Interest and other expenses of a consolidated real estate VIE	129.5	—	—	129.5
Other non-operating income	(14.0	) —	—	(14.0
Total expenses	2,089.1	940.0	(182.4	) 2,846.7
Other income				
Net investment gains of Consolidated Funds	—	996.9	(2.4	) 994.5
Income before provision for income taxes	388.9	785.4	14.7	1,189.0
Provision for income taxes	63.9	—	—	63.9
Net income	325.0	785.4	14.7	1,125.1
Net income (loss) attributable to non-controlling interests in consolidated entities	(52.7	) —	800.1	747.4
Net income attributable to Carlyle Holdings	377.7	785.4	(785.4	) 377.7
	308.2	—	—	308.2

Net income attributable to non-controlling
interests in Carlyle Holdings

Net income attributable to The Carlyle Group L.P.	\$69.5	\$785.4	\$(785.4) \$69.5
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The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	Three Months Ended September 30, 2013			
	Consolidated Operating Entities (Dollars in millions)	Consolidated Funds	Eliminations	Consolidated
Revenues				
Fund management fees	\$302.6	\$—	\$(44.7	) \$257.9
Performance fees				
Realized	111.3	—	(2.7	) 108.6
Unrealized	210.7	—	1.2	211.9
Total performance fees	322.0	—	(1.5	) 320.5
Investment income (loss)				
Realized	(8.8	) —	5.7	(3.1
Unrealized	(6.3	) —	14.4	8.1
Total investment income	(15.1	) —	20.1	5.0
Interest and other income	2.7	—	—	2.7
Interest and other income of Consolidated Funds	—	302.0	—	302.0
Total revenues	612.2	302.0	(26.1	) 888.1
Expenses				
Compensation and benefits				
Base compensation	204.2	—	—	204.2
Equity-based compensation	78.7	—	—	78.7
Performance fee related				
Realized	45.4	—	—	45.4
Unrealized	113.5	—	—	113.5
Total compensation and benefits	441.8	—	—	441.8
General, administrative and other expenses	135.6	—	0.8	136.4
Interest	11.7	—	—	11.7
Interest and other expenses of Consolidated Funds	—	265.9	(48.7	) 217.2
Other non-operating expense	7.6	—	—	7.6
Total expenses	596.7	265.9	(47.9	) 814.7
Other income (loss)				
Net investment losses of Consolidated Funds	—	(86.2	) 4.2	(82.0
Income (loss) before provision for income taxes	15.5	(50.1	) 26.0	(8.6
Provision for income taxes	17.9	—	—	17.9
Net loss	(2.4	) (50.1	) 26.0	(26.5
Net loss attributable to non-controlling interests in consolidated entities	(2.5	) —	(24.1	) (26.6
Net income (loss) attributable to Carlyle Holdings	0.1	(50.1	) 50.1	0.1
Net loss attributable to non-controlling interests in Carlyle Holdings	(2.2	) —	—	(2.2
Net income (loss) attributable to The Carlyle Group L.P.	\$2.3	\$(50.1	) \$50.1	\$2.3

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	Nine Months Ended September 30, 2013			
	Consolidated Operating Entities (Dollars in millions)	Consolidated Funds	Eliminations	Consolidated
Revenues				
Fund management fees	\$862.6	\$—	\$(131.1	) \$731.5
Performance fees				
Realized	570.9	—	(6.3	) 564.6
Unrealized	702.4	—	(45.0	) 657.4
Total performance fees	1,273.3	—	(51.3	) 1,222.0
Investment income (loss)				
Realized	3.8	—	1.6	5.4
Unrealized	(9.5	) —	20.5	11.0
Total investment income	(5.7	) —	22.1	16.4
Interest and other income	9.2	—	—	9.2
Interest and other income of Consolidated Funds	—	823.3	—	823.3
Total revenues	2,139.4	823.3	(160.3	) 2,802.4
Expenses				
Compensation and benefits				
Base compensation	556.3	—	—	556.3
Equity-based compensation	257.0	—	—	257.0
Performance fee related				
Realized	232.2	—	—	232.2
Unrealized	374.5	—	—	374.5
Total compensation and benefits	1,420.0	—	—	1,420.0
General, administrative and other expenses	365.9	—	2.2	368.1
Interest	33.8	—	—	33.8
Interest and other expenses of Consolidated Funds	—	867.4	(198.4	) 669.0
Other non-operating expense	1.9	—	—	1.9
Total expenses	1,821.6	867.4	(196.2	) 2,492.8
Other income (loss)				
Net investment gains of Consolidated Funds	—	422.6	(2.5	) 420.1
Income before provision for income taxes	317.8	378.5	33.4	729.7
Provision for income taxes	59.4	—	—	59.4
Net income	258.4	378.5	33.4	670.3
Net income attributable to non-controlling interests in consolidated entities	29.5	—	411.9	441.4
Net income attributable to Carlyle Holdings	228.9	378.5	(378.5	) 228.9
Net income attributable to non-controlling interests in Carlyle Holdings	196.1	—	—	196.1
Net income attributable to The Carlyle Group L.P.	\$32.8	\$378.5	\$(378.5	) \$32.8

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
	(Dollars in millions)	
Cash flows from operating activities		
Net income	\$ 325.0	\$ 258.4
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	125.4	131.1
Equity-based compensation	262.9	257.0
Excess tax benefits related to equity-based compensation	(2.5)	(1.9)
Non-cash performance fees	(536.5)	(793.6)
Other non-cash amounts	20.8	9.6
Investment income	3.1	30.4
Purchases of investments and trading securities	(271.2)	(154.7)
Proceeds from the sale of investments and trading securities	521.9	240.8
Payments of contingent consideration	(57.9)	—
Change in deferred taxes, net	11.6	28.3
Change in due from affiliates and other receivables	(3.0)	(30.0)
Change in receivables and inventory of a consolidated real estate VIE	3.0	—
Change in deposits and other	(11.4)	5.0
Change in other assets of a consolidated real estate VIE	(0.9)	—
Change in accounts payable, accrued expenses and other liabilities	(35.6)	26.5
Change in accrued compensation and benefits	189.1	477.7
Change in due to affiliates	(71.1)	46.6
Change in other liabilities of a consolidated real estate VIE	(13.2)	—
Change in deferred revenue	203.1	137.1
Net cash provided by operating activities	662.6	668.3
Cash flows from investing activities		
Change in restricted cash	65.3	(45.2)
Purchases of fixed assets, net	(15.1)	(18.8)
Acquisitions, net of cash acquired	(3.1)	—
Net cash provided by (used in) investing activities	47.1	(64.0)
Cash flows from financing activities		
Repayments under credit facility	—	(386.3)
Issuance of 3.875% senior notes due 2023, net of financing costs	—	495.3
Issuance of 5.625% senior notes due 2043, net of financing costs	210.8	394.1
Payments on loans payable	—	(475.0)
Net payments on loans payable of a consolidated real estate VIE	(15.9)	—
Payments of contingent consideration	(38.1)	(23.6)
Excess tax benefits related to equity-based compensation	2.5	1.9
Distributions to common unitholders	(91.9)	(52.0)
Distributions to non-controlling interest holders in Carlyle Holdings	(446.8)	(331.1)
Contributions from non-controlling interest holders	117.3	94.4
Distributions to non-controlling interest holders	(102.2)	(70.9)
Net proceeds from issuance of common units, net of offering costs	449.5	—
Acquisition of non-controlling interests in Carlyle Holdings	(303.4)	(7.1)
Change in due to/from affiliates financing activities	(47.9)	43.0

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Net cash used in financing activities	(266.1) (317.3)
Effect of foreign exchange rate changes	(16.0) 1.6	
Increase in cash and cash equivalents	427.6	288.6	
Cash and cash equivalents, beginning of period	966.6	567.1	
Cash and cash equivalents, end of period	\$1,394.2	\$855.7	

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

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

Overview

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

Corporate Private Equity — Our Corporate Private Equity segment advises our 23 buyout and 9 growth capital funds, which seek a wide variety of investments of different sizes and growth potentials. As of September 30, 2014, our Corporate Private Equity segment had approximately \$64 billion in AUM and approximately \$42 billion in Fee-earning AUM.

Global Market Strategies — Our Global Market Strategies segment advises a group of 68 funds that pursue investment opportunities across structured credit, distressed debt, corporate and energy mezzanine debt, middle-market and senior debt, as well as credit, emerging markets and commodities-focused hedge funds and a mutual fund. As of September 30, 2014, our Global Market Strategies segment had approximately \$39 billion in AUM and approximately \$35 billion in Fee-earning AUM.

Real Assets — Our Real Assets segment advises our 10 U.S. and internationally focused real estate funds, our infrastructure fund, our two power funds, our international energy fund, as well as our five Legacy Energy funds (funds that we jointly advise with Riverstone). The segment also includes seven NGP management fee funds and three carry funds advised by NGP. As of September 30, 2014, our Real Assets segment had approximately \$46 billion in AUM and approximately \$28 billion in Fee-earning AUM.

Solutions — Our Solutions segment advises a global private equity fund of funds program and related co-investment and secondary activities across 100 fund of funds vehicles. On July 1, 2011, we acquired a 60% interest in AlpInvest; on August 1, 2013 we acquired the remaining 40% equity interest in AlpInvest. On November 1, 2013, we acquired Metropolitan Real Estate Equity Management, LLC ("Metropolitan"), one of the largest managers of indirect investments in global real estate, which manages 26 fund of funds vehicles. Additionally, on February 3, 2014, we acquired Diversified Global Asset Management Corporation ("DGAM"), a global manager of fund of hedge funds vehicles, which manages 15 fund of funds vehicles. As of September 30, 2014, our Solutions segment had approximately \$54 billion in AUM and approximately \$35 billion in Fee-earning AUM.

We earn management fees pursuant to contractual arrangements with the investment funds that we manage and fees for transaction advisory and oversight services provided to portfolio companies of these funds. We also typically receive a performance fee from an investment fund, which may be either an incentive fee or a special residual allocation of income, which we refer to as a carried interest, in the event that specified investment returns are achieved by the fund. Under U.S. generally accepted accounting principles ("U.S. GAAP"), we are required to consolidate some of the investment funds that we advise. However, for segment reporting purposes, we present revenues and expenses on a basis that deconsolidates these investment funds. Accordingly, our segment revenues primarily consist of fund management and related advisory fees, performance fees (consisting of incentive fees and carried interest allocations), investment income, including realized and unrealized gains on our investments in our funds and other trading securities, as well as interest and other income. Our segment expenses primarily consist of compensation and benefits expenses, including salaries, bonuses, performance payment arrangements, and equity-based compensation excluding awards granted in our initial public offering or in connection with acquisitions and strategic investments, and general and administrative expenses. Refer to Note 18 to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information on the differences between our financial results reported pursuant to U.S. GAAP and our financial results for segment reporting purposes.

Our Family of Funds

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

Corporate Private Equity			Global Market Strategies			Real Assets		
Buyout Carry Funds			Structured Credit Funds			Real Estate Carry Funds		
Carlyle Partners (U.S.)			Cash CLO Funds			Carlyle Realty Partners (U.S.)		
CP VI	\$13.0 bn	2013	U.S.	\$14.6 bn	1999-2014	CRP VII	\$1.7 bn	2014
CP V	\$13.7 bn	2007	Europe	€6.9 bn	2005-2014	CRP VI	\$2.3 bn	2010
CP IV	\$7.9 bn	2005	Middle Market CLO			CRP V	\$3.0 bn	2006
CP III	\$3.9 bn	2000	U.S.	\$1.2 bn	2011	CRP IV	\$950 mm	2004
CP II	\$1.3 bn	1994	Global Market Strategies Carry Funds			CRP III	\$564 mm	2000
Global Financial Services Partners			Carlyle Mezzanine Partners (Corporate Mezzanine)			Carlyle Europe Real Estate Partners		
CGFSP II	\$1.0 bn	2011	CMP II	\$553 mm	2008	CEREP III	€2.2 bn	2007
CGFSP I	\$1.1 bn	2008	CMP I	\$436 mm	2004	CEREP II	€763 mm	2005
Carlyle Europe Partners			Carlyle Strategic Partners (Distressed)			Carlyle Asia Real Estate Partners		
CEP IV	€1.3 bn	2014	CSP III	\$703 mm	2011	CAREP II	\$486 mm	2008
CEP III	€5.3 bn	2006	CSP II	\$1.4 bn	2007	Carlyle Realty Credit Partners (U.S.)		
CEP II	€1.8 bn	2003	CSP I	\$211 mm	2004	CRCP I	\$197 mm	2011
Carlyle Asia Partners			Carlyle Energy Mezzanine Opportunities Fund			Natural Resources Funds		
CAP IV	\$3.9 bn	2012	CEMOF I	\$1.4 bn	2010	Infrastructure Carry Fund		
CBPF	RMB 2.2bn	2010	Hedge Funds and Other Vehicles (1)			CIP I	\$1.1 bn	2006
CAP III	\$2.6 bn	2008	Long/Short Credit			Power Carry Funds		
CAP II	\$1.8 bn	2006	Claren Road			CPP II	\$301 mm	2014
CAP I	\$750 mm	1999	Opportunities Fund	\$3.0 bn	2008	CPOCP	\$280 mm	2013
Carlyle Japan Partners			Claren Road			International Energy Carry Fund		
CJP III	¥57.3 bn	2013	Master Fund	\$5.4 bn	2006	CIEP	\$2.1 bn	2013
CJP II	¥165.6 bn	2006	Emerging Markets Strategies			NGP Energy Carry Funds		
CJP I	¥50.0 bn	2001	Cross Border			NGP XI	\$1.2 bn	2014
Carlyle Mexico Partners			Equity Master Fund	\$3.6 bn	2002	NGP X(3)	\$3.6 bn	2012
Mexico	\$134 mm	2005	Emerging Sovereign Group - Various	-\$1.7 bn	2002	NGP Agribusiness Carry Fund		
Carlyle MENA Partners			Commodities			NGP Agribusiness	\$402 mm	2013
MENA I	\$471 mm	2007	Vermillion - Various	\$1.4 bn	2005-2014	NGP Management Fee Funds		
Carlyle South American Buyout Fund			Quantitative Strategies			Various (4)	\$8.1 bn	2004-2007
CSABF I	\$776 mm	2009				Legacy Energy Carry Funds		
Carlyle Sub-Saharan Africa Fund								

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CSSAF I	\$698 mm	2012	Various	\$86 mm	2014	Carlyle/Riverstone Global Energy
Carlyle Peru Fund			Business Development Companies (2)			Energy IV \$6.0 bn 2007
CPF I	\$308 mm	2012	Carlyle GMS	\$523 mm	2013	Energy III \$3.8 bn 2005
Growth Carry Funds			Finance, Inc.			
Carlyle U.S. Venture/Growth Partners			NF Investment Corp	\$133 mm	2013	Energy II \$1.1 bn 2002
CEO I	\$1.1 bn	2011	Solutions			Carlyle/Riverstone Renewable Energy
CUSGF III	\$605 mm	2006	AlpInvest			Renew II \$3.4 bn 2008
CVP II	\$602 mm	2001	Fund of Private Equity Funds			Renew I \$685 mm 2005
Carlyle Europe Technology Partners			42 vehicles	€39.0 bn	2000-2014	
CETP III	€286 mm	2014	Secondary Investments			
CETP II	€522 mm	2007	30 vehicles	€9.9 bn	2000-2014	
CETP I	€222 mm	2005	Co-Investments			
Carlyle Asia Venture/Growth Partners			28 vehicles	€11.1 bn	2000-2014	
CAGP IV	\$1.0 bn	2008	Metropolitan Real Estate			
CAGP III	\$680 mm	2005	Real Estate Fund of Funds			
Carlyle Cardinal Ireland			26 vehicles	\$2.7 bn	2003-2014	
CCI	€292 mm	2014	Diversified Global Asset Management (1)			
			Fund of Hedge Funds			
			15 vehicles	\$3.2 bn	2004-2014	

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

(1) Open-ended hedge funds, a mutual fund and other pooled vehicles. Amounts represent AUM across all products as of September 30, 2014.

(2) Amounts represent gross assets as of September 30, 2014.

NGP X was previously reported as an NGP management fee fund. As of September 30, 2014, it will be reported as a carry fund due to Carlyle's exercise on July 1, 2014 of its option to acquire general partner interests in NGP X which entitles Carlyle to an allocation of income equal to 40% of the carried interest received by NGP X's general partner.

(4) Includes NGPC, NGP ETP I, NGP M&R, NGP ETP II, NGP VII, NGP VIII and NGP IX.

Trends Affecting our Business

Although we believe the underlying fundamentals of the global economy continue to improve, concerns about the strength of the global economy, the spread of the Ebola virus, less accommodative monetary policy, geopolitical tensions and already high valuations combined to trigger a sell-off in risk assets during the third quarter and into the beginning of the fourth quarter. Between June 30, 2014 and October 15, 2014, the MSCI World and EuroStoxx 600 indexes fell by nearly 8%, with the S&P 500 and MSCI Emerging Markets indexes dropping by about 5% over the same period. The VIX index - a measure of option-implied volatility of the S&P 500 over the next thirty days - increased from 11.5 on June 30, 2014 to 26 on October 15, 2014. The option-adjusted spread on BB corporate credit widened during the quarter by nearly 100 basis points to 3.41% as of October 15, 2014 while the spreads on B-rated corporate credit widened by more than 150 basis points to nearly 5% as of October 15, 2014. The third quarter was a particularly volatile period for hedge funds, with the industry losing 1.22% in September 2014 alone. Despite this third quarter market volatility, the value of Carlyle's carry fund portfolio increased by approximately 3% during the third quarter as our private portfolio appreciated 6% in the aggregate while our public portfolio declined in value by 4%. The asset-weighted hedge fund performance of our reported funds was (2.1)% for the quarter ended September 30, 2014, and subsequently declined further after markets closed on September 30, 2014.

The turmoil in risk assets also led to a sharp decline in Treasury yields and forward interest rates during the quarter. The yield on the 10-year Treasury fell from 2.5% at the end of June to a low of 2% in mid-October. Forward interest rates also declined during this period, with the Eurodollar futures contracts suggesting that market participants expect the 90-day LIBOR to rise to just 0.67% in December 2015, down from its June 30 expectation of 0.93%. The decline in interest rates came despite the release on September 18, 2014 of an addendum to the Federal Open Market Committee September policy statement announcing the Fed's intention to complete asset purchases in October 2015 and to begin raising the fed funds rate next year. In anticipation of rising interest rates and the possibility of market volatility or weakness, we have encouraged our investment professionals to take advantage of favorable financing and refinancing terms over the past several months. We have not yet seen significant negative developments in the availability of or rates on financing for our buyout transactions, but have continued to advise our investment professionals to take advantage of low rate financing in light of these market developments.

The decline in U.S. yields was preceded by sharp declines in the yields on German and French government debt, with the 10-year German and French yields declining to just 0.76% and 1.13%, respectively. In October, the International Monetary Fund estimated that the global economy would expand by 3.3% in 2014, which was down 0.5% from their April 2014 estimate and down 0.7% from their April 2014 forecast. Much of the decline was tied to the slowdown in emerging market economies where growth is now expected to average 4.4% in 2014, down from 5.3% as forecast in April 2013.

It is difficult to determine if recent volatility in the markets will continue, and, if so, what impact it will have on our diverse portfolio. Depending on short term market conditions and regulatory reviews, exits could accelerate above our expectations or they could be delayed. Lower valuations while potentially adversely impacting our existing portfolio, could also improve investment opportunities for our funds.

During the third quarter, we invested \$3.7 billion in new and existing investments in our carry funds that met our investment criteria and strategic objectives. We also capitalized on continuing high asset values and, as an opportunistic seller, realized proceeds of \$4.5 billion in 146 investments and 38 funds during the quarter. While there can be no assurance that these exit and investment trends will continue, we remain focused on maximizing the value of our portfolio for our fund investors and our business.

Recent Transactions

In October 2014, the Board of Directors of our general partner declared a quarterly distribution of \$0.16 per common unit to common unit holders of record at the close of business on November 10, 2014, payable on November 21, 2014.

Consolidation of Certain Carlyle Funds and Variable Interest Entities

Pursuant to U.S. GAAP, we consolidate certain Carlyle sponsored funds, related co-investment entities and CLOs that we advise, which we refer to collectively as the Consolidated Funds, in our consolidated financial statements. These funds represent approximately 15% of our AUM as of September 30, 2014; 13% and 14% of our fund management fees for the three months and nine months ended September 30, 2014, respectively; approximately 15% of our fund management fees for the three and nine months ended September 30, 2013; approximately 7% and 2% of our performance fees for the three months and nine months ended September 30, 2014, respectively; and less than 1% and approximately 4% of our performance fees during the three and nine months ended September 30, 2013.

We are not required under U.S. GAAP to consolidate in our financial statements most of the investment funds we advise because such funds provide their limited partners with the right to dissolve the fund without cause by a simple majority vote of the non-Carlyle affiliated limited partners, which overcomes the presumption of control by Carlyle. However, we consolidate certain CLOs that we advise as a result of the application of the accounting standards governing consolidations. As of September 30, 2014, our consolidated CLOs held approximately \$18 billion of total assets and comprised 60% of the assets of the Consolidated Funds and 100% of the loans payable of the Consolidated Funds. As of September 30, 2014, our consolidated AlpInvest fund of funds vehicles had approximately \$7 billion of total assets and comprised 23% of the assets of the Consolidated Funds. The remainder of the assets of the Consolidated Funds as of September 30, 2014 relate to our consolidated hedge funds and other consolidated funds. The assets and liabilities of the Consolidated Funds are generally held within separate legal entities and, as a result, the liabilities of the Consolidated Funds are non-recourse to us. For further information on consolidation of certain funds, see Note 2 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

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

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

In addition, as described in Note 17 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, as of September 30, 2013, we began consolidating Urbplan, a Brazilian real estate portfolio company held by certain of our real estate investment funds. Due to the timing and availability of financial information of Urbplan, we consolidate the financial position and results of operations of Urbplan on a financial reporting lag of 90 days. As of September 30, 2014, our unaudited condensed consolidated financial statements included approximately \$241 million of assets related to Urbplan, representing less than 1% of our consolidated total assets.

Key Financial Measures

Our key financial measures are discussed in the following pages.

Revenues

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

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

invested in our investment funds at cost or at the lower of cost or aggregate remaining fair value, (c) gross assets, excluding cash and cash equivalents, (d) for the private equity and real estate fund of funds vehicles following the expiration of the commitment period or weighted-average investment period of such vehicles, the lower of cost or fair value of the capital invested, the net asset value for unrealized investments, or the contributions for unrealized investments, (e) the total par amount of assets for our CLOs and the aggregate

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principal amount of the notes of our other structured products, or (f) the net asset value (“NAV”) of certain of our investment funds, as described in our unaudited condensed consolidated financial statements. Additionally, management fees include catch-up management fees, which are episodic in nature and represent management fees charged to fund investors in subsequent closings of a fund which apply to the time period between the fee initiation date and the subsequent closing date.

Management fees for funds in our corporate private equity funds, closed-end carry funds in the global market strategies segment and real assets funds generally range from 1% to 2% of commitments during the investment period of the relevant fund. Large funds tend to have lower effective management fee rates, while smaller funds tend to have effective management fee rates approaching 2.0%. Following the expiration or termination of the investment period of such funds, the management fees generally step-down to between 0.6% and 2.0% of contributions for unrealized investments. Depending upon the contracted terms of investment advisory or investment management and related agreements, these fees are called semiannually in advance and are recognized as earned over the subsequent six month period. As a result, cash on hand and deferred revenue will generally be higher at or around January and July, which are the semiannual due dates for management fees.

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

Our hedge funds generally pay management fees quarterly that range from 1.5% to 2.0% of NAV per year. Our mutual fund will generally pay management fees of 0.75% per year of daily net asset value. Management fees for our business development companies are due quarterly in arrears at annual rates that range from 0.25% to 1.0% of gross assets, excluding cash and cash equivalents. Management fees for our CLOs and other structured products typically range from 0.15% to 1.00% on the total par amount of assets or the aggregate principal amount of the notes in the CLO and are due quarterly or semiannually based on the terms and recognized over the relevant period. Our management fees for our CLOs/structured products and credit opportunities funds are governed by indentures and collateral management agreements.

With respect to Claren Road, ESG, and Vermillion, we retain a specified percentage of the management fees of the businesses based on our economic ownership in the management companies of 55%. Through the second quarter of 2013, we retained 60% of the management fees of AlpInvest based on our 60% equity interest in AlpInvest. During the third quarter of 2013, we acquired the remaining 40% equity interest in AlpInvest, and therefore we are entitled to 100% of the management fees of AlpInvest subsequent to that acquisition. Management fees are not subject to repayment but may be offset to the extent that other fees are earned as described below under “—Transaction and Portfolio Advisory Fee.”

Management fees attributable to Carlyle Partners VI, L.P. (“CP VI”), our sixth U.S. buyout fund with approximately \$12.0 billion of Fee-earning AUM as of September 30, 2014, were approximately 14% of total management fees recognized during the three months and nine months ended September 30, 2014, respectively. Management fees attributable to CP VI were approximately 15% of total management fees recognized during the three months ended September 30, 2013. Management fees attributable to Carlyle Partners V, L.P. (“CP V”), our fifth U.S. buyout fund with approximately \$8.5 billion of Fee-earning AUM as of September 30, 2014, were approximately 12% of total management fees recognized during the nine months ended September 30, 2013. No other fund generated over 10% of total management fees in the periods presented.

Transaction and Portfolio Advisory Fees. Transaction and portfolio advisory fees are fees we receive for the transaction and portfolio advisory services we provide to our portfolio companies. When covered by separate contractual agreements, we recognize transaction and portfolio advisory fees for these services when the service has been provided and collection is reasonably assured. We are required to offset our fund management fees earned by a percentage of the transaction and advisory fees earned, which we refer to as the “rebate offsets.” Such rebate offset

percentages generally approximate 80% of the fund's portion of the transaction and advisory fees earned. The recognition of portfolio advisory fees and transactions fees can be volatile as they are primarily generated by investment activity within our funds, and therefore are impacted by our investment pace. We have received and expect to continue to receive requests from a variety of investors and groups representing investors to increase the percentage of transaction and advisory fees we share with our investors in future funds; to the extent that we accommodate such requests on future funds, the rebate offset percentages would increase relative to historical levels.

Performance Fees. Performance fees consist principally of the special residual allocation of profits to which we are entitled, commonly referred to as carried interest, from certain of our investment funds, which we refer to as the “carry funds.” We are generally entitled to a 20% allocation (or 10% to 20% on external coinvestment vehicles, with some earning no carried

interest, or approximately 2% to 10% in the case of most of our fund of funds vehicles) of the net realized income or gain as a carried interest after returning the invested capital, the allocation of preferred returns of generally 8% to 9% and the return of certain fund costs (subject to catch-up provisions as set forth in the fund limited partnership agreement). Carried interest revenue, which is a component of performance fees in our consolidated financial statements, is recognized by Carlyle upon appreciation of the valuation of our funds' investments above certain return hurdles as set forth in each respective partnership agreement and is based on the amount that would be due to us pursuant to the fund partnership agreement at each period end as if the funds were liquidated at such date.

Accordingly, the amount of carried interest recognized as performance fees reflects our share of the fair value gains and losses of the associated funds' underlying investments measured at their then-current fair values. As a result, the performance fees earned in an applicable reporting period are not indicative of any future period. Carried interest is ultimately realized and distributed when: (i) an underlying investment is profitably disposed of, (ii) certain costs borne by the limited partner investors have been reimbursed, (iii) the investment fund's cumulative returns are in excess of the preferred return and (iv) we have decided to collect carry rather than return additional capital to limited partner investors. Our decision to realize carry considers such factors as the level of embedded valuation gains, the portion of the fund invested, the portion of the fund returned to limited partner investors, and the length of time the fund has been in carry, as well as other qualitative measures. The portion of performance fees that are realized and unrealized in each period are separately reported in our statement of operations.

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

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

Performance fees for the three months ended September 30, 2014, and related AUM, were generated from the following funds:

- \$124.7 million from Carlyle Europe Partners III, L.P. ("CEP III") (with total AUM of approximately \$7.5 billion),
- \$90.0 million from CP V (with total AUM of approximately \$15.2 billion),
- \$29.6 million from Carlyle U.S. Equity Opportunity Fund, L.P. ("CEOF") (with total AUM of approximately \$1.3 billion),
- \$25.2 million from Carlyle Realty Partners VI, L.P. ("CRP VI") (with total AUM of approximately \$2.8 billion),
- \$(31.6) million from Carlyle Partners IV, L.P. ("CP IV") (with total AUM of approximately \$2.4 billion),
- \$(23.0) million from the Claren Road Master Fund (with total AUM of approximately \$5.4 billion),
- \$(18.5) million from the Claren Road Credit Opportunities fund (with total AUM of approximately \$3.0 billion), and
- \$(75.8) million collectively from AlpInvest's Main Fund III Secondary Investments (2006) and Main Fund III Co-Investments (2006) (with total AUM of approximately \$3.5 billion). The performance fee reversal resulted in a corresponding decrease to performance fee compensation expense of \$56.9 million and a decrease to the provision for income taxes of \$18.9 million, resulting in no net impact to the net income attributable to Carlyle Holdings for that period.

Performance fees from CEP III and CP V were \$467.7 million and \$429.5 million, respectively, for the nine months ended September 30, 2014. No other fund generated over 10% of performance fees during the three months and nine months ended September 30, 2014.

Performance fees from CP V, CP IV, and Carlyle Global Financial Services Partners, L.P. ("CGFSP I") were \$121.9 million, \$97.5 million, and \$32.9 million, respectively, for the three months ended September 30, 2013. Performance fees from

CP V and CP IV were \$467.9 million and \$303.6 million, respectively, for the nine months ended September 30, 2013. No other fund generated over 10% of performance fees during those periods.

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

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

For any given period, performance fee revenue on our statement of operations may include reversals of previously recognized performance fees due to a decrease in the value of a particular fund that results in a decrease of cumulative performance fees earned to date. Since fund return hurdles are cumulative, previously recognized performance fees also may be reversed in a period of appreciation that is lower than the particular fund's hurdle rate. For the three months ended September 30, 2014 and 2013, the reversals of performance fees were \$268.2 million and \$68.4 million, respectively. For the nine months ended September 30, 2014 and 2013, the reversals of performance fees were \$232.0 million and \$25.8 million, respectively.

As of September 30, 2014, accrued performance fees and accrued giveback obligations were approximately \$3.7 billion and \$42.1 million, respectively, after amounts eliminated related to the Consolidated Funds. Each balance assumes a hypothetical liquidation of the funds' investments at September 30, 2014 at their then current fair values. These assets and liabilities will continue to fluctuate in accordance with the fair values of the fund investments until they are realized.

In addition, realized performance fees may be reversed in future periods to the extent that such amounts become subject to a giveback obligation. If at September 30, 2014, all investments held by our carry funds were deemed worthless, the amount of realized and previously distributed performance fees subject to potential giveback would be \$1.1 billion. See the related discussion of "Contingent Obligations (Giveback)" within "— Liquidity and Capital Resources." As described above, each investment fund is considered separately in evaluating carried interest and potential giveback obligations. As a result, performance fees within funds will continue to fluctuate primarily due to certain investments within each fund constituting a material portion of the carry in that fund. Additionally, the fair value of investments in our funds may have substantial fluctuations from period to period.

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

See “— Non-GAAP Financial Measures” for the amount of realized and unrealized performance fees recognized each period. See “— Segment Analysis” for the realized and unrealized performance fees by segment and related discussion for each period.

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

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

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

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

Level III – inputs to the valuation methodology are unobservable and significant to overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category include investments in privately-held entities, non-investment grade residual interests in securitizations, collateralized loan obligations, and certain over-the-counter derivatives where the fair value is based on unobservable inputs. Investments in fund of funds are generally included in this category. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

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

	As of September 30, 2014				
	Corporate Private Equity	Global Market Strategies	Real Assets	Solutions	Total
Consolidated Results					
Level I	\$10,370	\$7,700	\$6,634	\$644	\$25,348
Level II	650	848	722	1,314	3,534
Level III	29,612	22,308	24,473	34,753	111,146
Total Fair Value	40,632	30,856	31,829	36,711	140,028
Other Net Asset Value	194	6,620	(590)	(38)	6,186
Total AUM, Excluding Available Capital Commitments	40,826	37,476	31,239	36,673	146,214
Available Capital Commitments	22,753	1,448	14,541	17,613	56,355
Total AUM	\$63,579	\$38,924	\$45,780	\$54,286	\$202,569

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

from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments.

Investment professionals with responsibility for the underlying investments are responsible for preparing the investment valuations pursuant to the policies, methodologies and templates prepared by our valuation group, which is a team made up of

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

In the absence of observable market prices, we value our investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist. Management's determination of fair value is then based on the best information available in the circumstances and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies and real estate properties, and certain debt positions. The valuation technique for each of these investments is described in Note 4 of our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Investment Income and Interest and Other Income. Investment income and interest and other income represent the unrealized and realized gains and losses on our principal investments, including our investments in Carlyle funds that are not consolidated, our equity method investments and other principal investments, as well as any interest and other income. Investment income (loss) also includes the related amortization of the basis difference between the carrying value of our investment and our share of the underlying net assets of the investee, as well as the compensation expense associated with compensatory arrangements provided by us to employees of our equity method investee. Realized investment income (loss) is recorded when we redeem all or a portion of our investment or when we receive or are due cash income, such as dividends or distributions. A realized investment loss is also recorded when an investment is deemed to be worthless. Unrealized investment income (loss) results from changes in the fair value of the underlying investment, as well as the reversal of previously recognized unrealized gains (losses) at the time an investment is realized.

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

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

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

ultimately we do not have recourse to such assets and such liabilities are generally non-recourse to us. Therefore, a gain or loss from the Consolidated Funds generally does not impact the assets available to our equity holders.

Expenses

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

We recognize as compensation expense the portion of performance fees that are due to our employees, senior Carlyle professionals, and operating executives in a manner consistent with how we recognize the performance fee revenue. These

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

In addition, we have implemented various equity-based compensation arrangements that require senior Carlyle professionals and other employees to vest ownership of a portion of their equity interests over a service period of up to six years, which under U.S. GAAP will result in compensation charges over current and future periods. Further, in order to recruit and retain existing and future senior Carlyle professionals and other employees, we have implemented additional equity-based compensation programs that have resulted in increases to our equity-based compensation expenses, which is a trend that is expected to continue in the future as we increase the use of deferred restricted common units. For example, in February 2014, we granted approximately 5.6 million deferred restricted common units across a significant number of our employees for a total estimated grant-date fair value of approximately \$172 million; these awards vest over a period up to six years. Compensation charges associated with the equity-based compensation grants issued in our initial public offering in May 2012 or grants issued in acquisitions or strategic investments are excluded from our calculation of Economic Net Income. Compensation charges associated with all equity-based compensation grants are excluded from Fee Related Earnings and Distributable Earnings.

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

General, Administrative and Other Expenses. General, administrative, and other expenses include occupancy and equipment expenses and other expenses, which consist principally of professional fees, including those related to our global regulatory compliance program, external costs of fundraising, travel and related expenses, communications and information services, depreciation and amortization and foreign currency transactions.

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

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

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

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

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

Income taxes for foreign entities are accounted for using the liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts

of assets and liabilities and their respective tax basis, using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

In the normal course of business, we are subject to examination by federal and certain state, local and foreign tax regulators. As of September 30, 2014, our U.S. federal income tax returns for the years 2011 through 2013 are open under the normal three-year statute of limitations and therefore subject to examination. State and local tax returns are generally subject to audit from 2009 to 2013. Foreign tax returns are generally subject to audit from 2007 to 2013. Certain of our foreign subsidiaries are currently under audit by foreign tax authorities.

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

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

Non-GAAP Financial Measures

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

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

Fee Related Earnings. Fee Related Earnings is a component of Distributable Earnings and is used to measure our operating profitability exclusive of performance fees, investment income from investments in our funds, performance fee-related compensation, and equity-based compensation expense. Accordingly, Fee Related Earnings reflect the

ability of the business to cover direct base compensation and operating expenses from fee revenues other than performance fees. Fee Related Earnings are reported as part of our segment results. We use Fee Related Earnings from operations to measure our profitability from fund management fees.

Operating Metrics

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

Fee-earning Assets under Management

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

(a) for substantially all carry funds and certain co-investment vehicles where the investment period has not expired and for Metropolitan fund of funds vehicles during the weighted-average investment period of the underlying funds, the amount of limited partner capital commitments, for AlpInvest fund of funds vehicles, the amount of external investor capital commitments during the commitment fee period, and for the NGP management fee funds and certain carry funds advised by NGP, the amount of investor capital commitments before the first investment realization (see “Fee-earning AUM based on capital commitments” in the table below for the amount of this component at each period);

(b) for substantially all carry funds and certain co-investment vehicles where the investment period has expired and for Metropolitan fund of funds vehicles after the expiration of the weighted-average investment period of the underlying funds, the remaining amount of limited partner invested capital, and for the NGP management fee funds and certain carry funds advised by NGP where the first investment has been realized, the amount of partner commitments less realized and written-off investments (see “Fee-earning AUM based on invested capital” in the table below for the amount of this component at each period);

(c) the amount of aggregate Fee-earning collateral balance at par of our CLOs, as defined in the fund indentures (typically exclusive of equities and defaulted positions) as of the quarterly cut-off date for each CLO and the aggregate principal amount of the notes of our other structured products (see “Fee-earning AUM based on collateral balances, at par” in the table below for the amount of this component at each period);

(d) the net asset value of our mutual fund or external investor portion of the net asset value (pre-redemptions and subscriptions) of our long/short credit funds, emerging markets, multi-product macroeconomic fund of hedge funds vehicles and other hedge funds (see “Fee-earning AUM based on net asset value” in the table below for the amount of this component at each period);

(e) the gross assets (including assets acquired with leverage), excluding cash and cash equivalents of our business development companies and certain carry funds; and

(f) for AlpInvest fund of funds vehicles where the commitment fee period has expired, and certain carry funds where the investment period has expired, the lower of cost or fair value of invested capital (see “Fee-earning AUM based on lower of cost or fair value and other” in the table below for the amount of this component at each period).

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

	As of September 30,	
	2014	2013
	(Dollars in millions)	
Consolidated Results		
Components of Fee-earning AUM		
Fee-earning AUM based on capital commitments (1)	\$40,846	\$40,139
Fee-earning AUM based on invested capital (2)	40,629	44,175
Fee-earning AUM based on collateral balances, at par (3)	17,512	17,029
Fee-earning AUM based on net asset value (4)	17,039	13,479
Fee-earning AUM based on lower of cost or fair value and other (5)	24,188	23,102
Balance, End of Period	\$ 140,214	\$ 137,924

- (1) Reflects limited partner capital commitments where the investment period, weighted-average investment period, or commitment fee period has not expired.
- (2) Reflects limited partner invested capital and includes amounts committed to or reserved for investments for certain Real Assets and Solutions funds.

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- (3) Represents the amount of aggregate Fee-earning collateral balances and principal balances, at par, for our CLOs/structured products.
- (4) Reflects the net asset value (pre-redemptions and subscriptions) of our hedge funds, mutual fund and fund of hedge funds vehicles.
- (5) Includes funds with fees based on gross asset value.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Consolidated Results	(Dollars in millions)		(Dollars in millions)	
Fee-earning AUM Rollforward				
Balance, Beginning of Period	\$ 145,649	\$ 132,024	\$ 139,949	\$ 123,121
Acquisitions	—	—	2,894	—
Inflows, including Fee-paying Commitments (1)	3,133	6,488	12,917	23,365
Outflows, including Distributions (2)	(4,973)	(2,862)	(13,945)	(11,894)
Subscriptions, net of Redemptions (3)	208	423	608	1,179
Changes in CLO collateral balances (4)	195	(76)	1,528	728
Market Appreciation/(Depreciation) (5)	(457)	(41)	43	929
Foreign Exchange and other (6)	(3,541)	1,968	(3,780)	496
Balance, End of Period	\$ 140,214	\$ 137,924	\$ 140,214	\$ 137,924

Inflows represent limited partner capital raised and capital invested by our carry funds, NGP management fee funds and fund of funds vehicles outside the investment period, weighted-average investment period, or commitment fee period and capital invested in our business development companies.

Outflows represent limited partner distributions from our carry funds, NGP management fee funds and fund of funds vehicles and changes in basis for our carry funds and fund of funds vehicles where the investment period, weighted-average investment period, or commitment fee period has expired and distributions from our business development companies.

(3) Represents the net result of subscriptions to and redemptions from our hedge funds, mutual fund and fund of hedge funds vehicles.

(4) Represents the change in the aggregate Fee-earning collateral balances and principal balances at par of our CLOs/structured products, as of the quarterly cut-off dates.

Market Appreciation/ (Depreciation) represents changes in the net asset value of our hedge funds, mutual fund and fund of hedge funds vehicles, and realized and unrealized gains (losses) on portfolio investments in our carry funds and fund of funds vehicles based on the lower of cost or fair value.

Includes onboarding of fully committed existing funds from another manager and represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end. Refer to “— Segment Analysis” for a detailed discussion by segment of the activity affecting Fee-earning AUM for each of the periods presented by segment.

Assets under Management

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

- (a) the fair value of the capital invested in our carry funds, co-investment vehicles, fund of funds vehicles and the NGP management fee funds plus the capital that we are entitled to call from investors in those funds and vehicles (including our commitments to those funds and vehicles and those of senior Carlyle professionals and employees) pursuant to the terms of their capital commitments to those funds and vehicles;

- (b) the amount of aggregate collateral balance and principal cash at par or aggregate principal amount of the notes of our CLOs and other structured products (inclusive of all positions);

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

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

Our carry funds are closed-ended funds and investors are generally not able to redeem their interests under the fund partnership agreements.

We include in our calculation of AUM and Fee-earning AUM certain energy and renewable resources funds that we jointly advise with Riverstone Holdings L.L.C. (“Riverstone”) and certain NGP management fee funds and carry funds that are advised by NGP. Although we include all capital commitments to NGP XI in our assets under management calculation, we will only include invested capital for NGP XI in our Fee-earning AUM calculation until early 2016 when we will be entitled to charge management fees based on commitments less realized and written-off investments. In addition, our Solutions segment includes certain assets under consulting relationships. Fee-earning AUM and AUM only include those assets which earn a material fee.

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

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

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

Available Capital

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

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

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Available Capital (Dollars in millions)	Fair Value of Capital (Dollars in millions)	Total AUM	Available Capital (Dollars in millions)	Fair Value of Capital (Dollars in millions)	Total AUM
Consolidated Results						
Balance, Beginning of Period	\$56,314	\$146,431	\$202,745	\$52,018	\$136,792	\$188,810
Acquisitions	—	—	—	—	2,993	2,993
Commitments (1)	4,555	—	4,555	16,034	—	16,034
Capital Called, net (2)	(4,635)	4,475	(160)	(13,158)	13,186	28
Distributions (3)	1,199	(6,920)	(5,721)	2,599	(25,103)	(22,504)
Subscriptions, net of Redemptions (4)	—	288	288	—	751	751
Changes in CLO collateral balances (5)	—	1,245	1,245	—	2,703	2,703
Market Appreciation/(Depreciation) (6)	—	3,253	3,253	—	17,395	17,395
Foreign Exchange and other (7)	(1,078)	(2,558)	(3,636)	(1,138)	(2,503)	(3,641)
Balance, End of Period	\$56,355	\$146,214	\$202,569	\$56,355	\$146,214	\$202,569

(1) Represents capital raised by our carry funds, NGP management fee funds and fund of funds vehicles, net of expired available capital.

(2) Represents capital called by our carry funds, NGP management fee funds and fund of funds vehicles, net of fund fees and expenses and investments in our business development companies. Equity invested amounts may vary from capital called due to timing differences between acquisition and capital call dates.

(3) Represents distributions from our carry funds, NGP management fee funds and fund of funds vehicles, net of amounts recycled and distributions from our business development companies. Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.

(4) Represents the net result of subscriptions to and redemptions from our hedge funds, mutual fund and fund of hedge funds vehicles

(5) Represents the change in the aggregate collateral balance and principal cash and principal notes at par of the CLOs/structured products.

(6) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments and changes in the net asset value of our hedge funds, mutual fund and fund of hedge funds vehicles.

(7) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Please refer to “— Segment Analysis” for a detailed discussion by segment of the activity affecting Total AUM for each of the periods presented.

Consolidated Results of Operations

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

unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, as of September 30, 2013, we began consolidating Urbplan, a Brazilian real estate portfolio company of certain of our real estate investment funds.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions, except unit and per unit data)			
Revenues				
Fund management fees	\$307.4	\$257.9	\$885.0	\$731.5
Performance fees				
Realized	176.9	108.6	843.9	564.6
Unrealized	10.5	211.9	506.4	657.4
Total performance fees	187.4	320.5	1,350.3	1,222.0
Investment income (loss)				
Realized	(0.5	) (3.1	) 29.4	5.4
Unrealized	4.3	8.1	4.2	11.0
Total investment income	3.8	5.0	33.6	16.4
Interest and other income	9.1	2.7	16.6	9.2
Interest and other income of Consolidated Funds	234.1	302.0	728.5	823.3
Revenue of a consolidated real estate VIE	13.2	—	27.2	—
Total revenues	755.0	888.1	3,041.2	2,802.4
Expenses				
Compensation and benefits				
Base compensation	190.7	204.2	615.8	556.3
Equity-based compensation	79.7	78.7	262.9	257.0
Performance fee related				
Realized	78.4	45.4	368.3	232.2
Unrealized	(14.3	) 113.5	316.3	374.5
Total compensation and benefits	334.5	441.8	1,563.3	1,420.0
General, administrative and other expenses	117.4	136.4	370.4	368.1
Interest	14.4	11.7	41.1	33.8
Interest and other expenses of Consolidated Funds	240.1	217.2	756.4	669.0
Interest and other expenses of a consolidated real estate VIE	38.3	—	129.5	—
Other non-operating (income) expenses	(39.6	) 7.6	(14.0	) 1.9
Total expenses	705.1	814.7	2,846.7	2,492.8
Other income (loss)				
Net investment gains (losses) of Consolidated Funds	125.5	(82.0	) 994.5	420.1
Income (loss) before provision for income taxes	175.4	(8.6	) 1,189.0	729.7
Provision (benefit) for income taxes	(5.9	) 17.9	63.9	59.4
Net income (loss)	181.3	(26.5	) 1,125.1	670.3
Net income (loss) attributable to non-controlling interests in consolidated entities	53.2	(26.6	) 747.4	441.4
Net income attributable to Carlyle Holdings	128.1	0.1	377.7	228.9
Net income (loss) attributable to non-controlling interests in Carlyle Holdings	102.7	(2.2	) 308.2	196.1
Net income attributable to The Carlyle Group L.P.	\$25.4	\$2.3	\$69.5	\$32.8
Net income attributable to The Carlyle Group L.P. per common unit				
Basic	\$0.38	\$0.04	\$1.11	\$0.72
Diluted	\$0.35	\$0.04	\$1.01	\$0.65
Weighted-average common units				
Basic	66,474,689	47,554,246	61,422,816	45,363,194

Diluted	72,086,875	51,055,564	67,440,601	50,209,620
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Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Revenues

Total revenues were \$755.0 million for the three months ended September 30, 2014, a decrease of 15% over total revenues for the three months ended September 30, 2013 of \$888.1 million. The decrease in revenues was primarily attributable to a decrease in performance fees of \$133.1 million and a decrease in interest and other income of consolidated funds of \$67.9 million for the three months ended September 30, 2014 as compared to 2013. These decreases were partially offset by increases in fund management fees of \$49.5 million and revenue of a consolidated real estate VIE of \$13.2 million.

Fund Management Fees. Fund management fees increased \$49.5 million, or 19%, to \$307.4 million for the three months ended September 30, 2014 as compared to 2013. In addition, fund management fees from consolidated funds increased \$2.5 million for the three months ended September 30, 2014 as compared to 2013. These fees are eliminated upon consolidation of these funds.

The overall increase, inclusive of management fees eliminated from consolidated funds, was primarily due to approximately \$55.9 million of incremental management fees from the commencement of the investment period during 2013 and 2014 for certain newly raised funds and catch-up management fees from subsequent closes of funds that are in the fundraising period, approximately \$9.5 million of additional management fees related to the acquisitions of Metropolitan and DGAM in November 2013 and February 2014, respectively, and approximately \$5.4 million of increased management fees from greater assets under management in ESG and Claren Road. Offsetting those increases were decreases in management fees of approximately \$22.5 million resulting from the change in the basis for earning management fees from commitments to invested capital for certain funds and from distributions from funds whose management fees are based on invested capital, and approximately \$2.0 million in decreased management fees from lower assets under management in Vermillion.

Fund management fees include transaction and portfolio advisory fees, net of rebate offsets, of \$21.9 million and \$10.9 million for the three months ended September 30, 2014 and 2013, respectively. The \$11.0 million increase in transaction and portfolio advisory fees resulted primarily from greater investment activity, primarily in our buyout funds, in 2014 as compared to 2013.

Performance Fees. Performance fees for the three months ended September 30, 2014 were \$187.4 million compared to \$320.5 million for the three months ended September 30, 2013. In addition, performance fees from consolidated funds decreased \$14.1 million for the three months ended September 30, 2014 as compared to 2013. These fees eliminate upon consolidation. The decrease in performance fees is primarily due to reversals of accrued hedge fund incentive fees that had been generated earlier in the year. In the third quarter of 2014, substantially all accrued hedge fund incentive fees generated earlier in 2014 were reversed, resulting in a decrease in performance fees of approximately \$76.7 million for the three months ended September 30, 2014. Additionally, Main Fund III - Secondary Investments (2006) and Main Fund III - Co-Investments (2006), two of the private equity fund of funds vehicles managed by AlpInvest, moved out of a carry position in the third quarter of 2014, resulting in a reversal of performance fees of approximately \$75.8 million (which was entirely offset by decreases to performance fee compensation expense and the provision for income taxes). Concerns about the global economy and already high valuations triggered a sell-off in risk assets during the third quarter and into the beginning of the fourth quarter. The turmoil in risk assets also led to a sharp decline in Treasury yields and forward interest rates. Market volatility resulted in a decline in the valuations of our public carry fund portfolio of 4% in the three months ended September 30, 2014 while our private carry fund portfolio appreciated 6% for an aggregate of 3% for the three months ended September 30, 2014 as compared to 4% for the three months ended September 30, 2013.

Approximately \$217.1 million and \$265.6 million of performance fees for the three months ended September 30, 2014 and 2013, respectively, were generated by our Corporate Private Equity segment. Performance fees for the three months ended September 30, 2014 and 2013 were \$(19.4) million and \$(14.8) million for the Global Market Strategies segment, \$31.9 million and \$24.6 million for the Real Assets segment, and \$(42.2) million and \$45.1 million for the Solutions segment, respectively. Further, approximately \$120.6 million of our performance fees for the three months ended September 30, 2014 were related to CEP III, CP V, CEOF, CRP VI, CP IV, the Claren Road Master Fund, the Claren Road Credit Opportunities Fund, and AlpInvest's Main Fund III Secondary Investments (2006) and Main Fund III Co-Investments (2006), while \$219.4 million of our performance fees for the three months ended September 30,

2013 were related to CP V and CP IV. See “— Key Financial Measures — Revenues — Performance Fees” for information on the allocation of performance fees derived from the AlpInvest fund of funds vehicles between the Partnership and the historical owners and management team of AlpInvest.

Investment Income. Investment income of \$3.8 million for the three months ended September 30, 2014 decreased \$1.2 million over investment income of \$5.0 million for the three months ended September 30, 2013. The decrease relates primarily to investment losses on certain European real estate investments, which were partially offset by higher investment income from

investments in our U.S. growth capital funds and European buyout funds. In addition, investment income from Consolidated Funds increased \$22.9 million for the three months ended September 30, 2014 as compared to 2013, which was due primarily to the absence in 2014 of \$28.5 million of net losses in the third quarter of 2013 from investments in Urbplan through the consolidated Carlyle vehicle. This income is eliminated upon consolidation. Interest and Other Income. Interest and other income increased \$6.4 million to \$9.1 million for the three months ended September 30, 2014, as compared to \$2.7 million for 2013.

Interest and Other Income of Consolidated Funds. Interest and other income of Consolidated Funds was \$234.1 million for the three months ended September 30, 2014, a decrease of \$67.9 million from \$302.0 million for the three months ended September 30, 2013. Our CLOs generate interest income primarily from investments in bonds and loans inclusive of amortization of discounts and generate other income from consent and amendment fees. Also included in this balance is interest income and dividend income recognized by the consolidated fund of funds vehicles and consolidated hedge funds. The decrease during these periods is due primarily to lower dividend income recognized by the consolidated fund of funds vehicles and consolidated hedge funds in 2014 as compared to 2013. Substantially all interest and other income of the CLOs and other consolidated funds together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

Revenue of a Consolidated Real Estate VIE. Revenue of a consolidated real estate VIE was \$13.2 million for the three months ended September 30, 2014. This balance reflects revenue earned for land development services of approximately \$6.0 million and investment income earned on Urbplan's investments of approximately \$7.2 million. The Partnership began consolidating Urbplan on September 30, 2013.

Expenses

Expenses were \$705.1 million for the three months ended September 30, 2014, a decrease of \$109.6 million from \$814.7 million for the three months ended September 30, 2013. The decrease primarily is due to decreases in total compensation and benefits, other non-operating expenses and general, administrative and other expenses, which decreased \$107.3 million, \$47.2 million, and \$19.0 million, respectively. These decreases were partially offset by increases in interest and other expenses of a consolidated real estate VIE and interest and other expenses of consolidated funds, which increased \$38.3 million and \$22.9 million, respectively.

Total compensation and benefits for the three months ended September 30, 2014 decreased \$107.3 million, or 24%, from \$441.8 million for the three months ended September 30, 2013 to \$334.5 million for the three months ended September 30, 2014. The decrease in total compensation and benefits primarily reflects a decrease in performance fee related compensation expense of \$94.8 million and a decrease in base compensation expense of \$13.5 million.

Compensation and Benefits. Base compensation and benefits decreased \$13.5 million, or 7%, for the three months ended September 30, 2014 as compared to 2013, which primarily relates to decreased expense associated with employment-related contingent consideration arrangements from hedge fund acquisitions of approximately \$50.1 million as compared to 2013 as a result of updated assumptions used to determine the expected payment of the contingent consideration. Also contributing to the overall decrease was a lower level of fundraising costs for the third quarter of 2014 as compared to 2013 of approximately \$8.0 million. These decreases were partially offset by increased headcount, promotions, and estimated bonuses as well as incremental compensation from the addition of professionals associated with the Partnership's acquisitions of Metropolitan and DGAM in November 2013 and February 2014, respectively.

Equity-based compensation increased \$1.0 million for the three months ended September 30, 2014 as compared to 2013. The increase in equity-based compensation is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014. In 2013, there was also an increase of \$13.8 million of compensation expense associated with modifications to the vesting terms of certain awards as well as \$2.7 million of compensation expense associated with the unvested common units issued in conjunction with the AlpInvest acquisition in 2013.

Performance fee related compensation expense decreased \$94.8 million for the three months ended September 30, 2014 as compared to 2013. Performance fee related compensation as a percentage of performance fees was 34% and

50% for the three months ended September 30, 2014 and 2013, respectively. The decrease in the percentage of performance fee related compensation expense from 2013 to 2014 was due primarily to the significant performance fee reversals from our private equity fund of funds vehicles in 2014 as compared to 2013 (which have a higher percentage of performance fee related compensation as compared to other carry funds).

General, Administrative and Other Expenses. General, administrative and other expenses decreased \$19.0 million for the three months ended September 30, 2014 as compared to 2013. This decrease was driven primarily by a net decrease of \$14.8 million of impairment losses that reduced the carrying value of certain intangible assets to their estimated values and a \$12.7 million decrease in expense associated with external fundraising costs. These decreases were partially offset by increases in amortization expense from the acquired intangible assets from Metropolitan and DGAM in 2013 and 2014, respectively, as well as increases in information technology expenses, professional fees, and expenses from the change in value of the liability for the tax receivable agreement.

Interest. Interest expense for the three months ended September 30, 2014 was \$14.4 million, an increase of \$2.7 million from 2013. The increase was due primarily to the interest on \$200 million of 5.625% senior notes due 2043 issued in March 2014.

Interest and Other Expenses of Consolidated Funds. Interest and other expenses of Consolidated Funds increased \$22.9 million for the three months ended September 30, 2014 as compared to 2013. This increase relates primarily to the six new CLOs formed throughout 2013 and the six new CLOs formed in 2014. The CLOs incur interest expense on their loans payable and incur other expenses consisting of trustee fees, rating agency fees and professional fees. Substantially all interest and other income of the CLOs and other consolidated funds together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

Interest and Other Expenses of a Consolidated Real Estate VIE. Interest and other expenses of a consolidated real estate VIE were \$38.3 million for the three months ended September 30, 2014. This balance reflects expenses incurred by Urbplan, consisting primarily of interest expense inclusive of the fair value adjustment on Urbplan loans (\$17.7 million), costs associated with land development services (\$8.8 million), general and administrative expenses (\$8.8 million), and compensation and benefits (\$3.0 million). The Partnership began consolidating Urbplan on September 30, 2013.

Other Non-operating (Income) Expense. Other non-operating income of \$39.6 million for the three months ended September 30, 2014 compares to other non-operating expense of \$7.6 million for the three months ended September 30, 2013. Included in this caption is the change in the fair value of contingent consideration associated with the Partnership's acquisitions. During the three months ended September 30, 2014, our hedge funds experienced negative performance and substantially all accrued performance fees were reversed. As a result, we updated the assumptions in the probability-weighted discounted cash flow models to estimate the fair value of the contingent consideration and recognized a decrease in value of the liability which resulted in a corresponding increase in non-operating income. These same cash flow assumptions were used to evaluate potential impairment of acquired intangible assets (see General, Administrative, and Other Expenses section above).

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

Net Investment Gains of Consolidated Funds

For the three months ended September 30, 2014, net investment gains of Consolidated Funds were \$125.5 million, as compared to net investment losses of \$82.0 million for the three months ended September 30, 2013. This balance is predominantly driven by our consolidated AlpInvest fund of funds vehicles, CLOs, and hedge funds. For the consolidated CLOs, the amount reflects the net gain or loss on the fair value adjustment of both assets and liabilities. The components of net investment gains (losses) of consolidated funds for the respective periods are:

	Three Months Ended September 30,	
	2014	2013
	(Dollars in millions)	
Realized gains (losses)	\$248.2	\$(138.2)
Net change in unrealized losses	(78.7)	(4.5)
Total gains (losses)	169.5	(142.7)
(Gains) losses from liabilities of CLOs	(45.3)	60.8
Gains (losses) on other assets of CLOs	1.3	(0.1)
Total	\$125.5	\$(82.0)

The realized and unrealized investment gains/losses primarily include the appreciation/depreciation of the equity investments within the consolidated AlpInvest fund of funds vehicles, the appreciation/depreciation of CLO investments in loans and bonds, as well as the appreciation/depreciation of investments made by our consolidated hedge funds and other consolidated funds. The gains/losses on the liabilities of the CLOs reflect the fair value adjustment on the debt of the CLOs. The net investment gains (losses) for the three months ended September 30, 2014 and 2013 were due primarily to net investment gains (losses) attributable to the consolidated AlpInvest fund of funds vehicles of \$367.7 million and \$(13.9) million, respectively, net investment losses attributable to the consolidated hedge funds of \$(130.7) million and \$(12.1) million, respectively, net investment losses attributable to other consolidated funds of \$(0.3) million and \$(25.4) million, and the net depreciation of CLOs of \$111.2 million and \$30.6 million, respectively.

Net Income Attributable to Non-controlling Interests in Consolidated Entities

Net income attributable to non-controlling interests in consolidated entities was \$53.2 million for the three months ended September 30, 2014 as compared to a net loss of \$26.6 million for the three months ended September 30, 2013. These amounts are primarily attributable to the net earnings or losses of the Consolidated Funds for each period, which are substantially all allocated to the related funds' limited partners or CLO investors. This balance also includes the allocation of Urbplan's net losses that are attributable to non-controlling interests.

For the three months ended September 30, 2014, the net income of our Consolidated Funds was approximately \$77.6 million. This income was substantially due to the consolidated AlpInvest fund of funds vehicles, partially offset by net losses on the consolidated hedge funds and the consolidated CLOs. The net income from the consolidated AlpInvest fund of funds vehicles was approximately \$333.4 million for the three months ended September 30, 2014. The net income was partially offset by net losses from the consolidated hedge funds and consolidated CLOs of \$143.1 million and \$112.7 million, respectively, for the three months ended September 30, 2014. The CLOs' investments depreciated in value and the fair value of the CLOs' liabilities appreciated, thereby creating a net loss for this period.

The net loss of our Consolidated Funds was approximately \$50.1 million for the three months ended September 30, 2013. This loss was substantially due to the losses from our consolidated hedge funds and our other consolidated funds. The net losses from our consolidated hedge funds and our other consolidated funds were approximately \$22.8 million and \$27.0 million, respectively, for the three months ended September 30, 2013.

Net Income Attributable to The Carlyle Group L.P.

The net income attributable to the Partnership was \$25.4 million for the three months ended September 30, 2014 as compared to \$2.3 million for the three months ended September 30, 2013. The Partnership is allocated a portion of the net income (loss) attributable to Carlyle Holdings based on the Partnership's ownership in Carlyle Holdings (which was approximately 21% and 16% as of September 30, 2014 and 2013, respectively). For the three months ended September 30, 2014 and 2013, the net income attributable to Carlyle Holdings was \$128.1 million and \$0.1 million, respectively. Additionally,

the Partnership is allocated 100% of the net income or loss attributable to the Partnership's wholly-owned taxable subsidiaries, which was \$(2.4) million and \$4.1 million for the three months ended September 30, 2014 and 2013, respectively.

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Revenues

Total revenues were \$3,041.2 million for the nine months ended September 30, 2014, an increase of 9% over total revenues for the nine months ended September 30, 2013 of \$2,802.4 million. The increase in revenues was primarily attributable to an increase in fund management fees of \$153.5 million, an increase in performance fees of \$128.3 million, an increase in revenue of a consolidated real estate VIE of \$27.2 million, and an increase in investment income of \$17.2 million for the nine months ended September 30, 2014 as compared to 2013. These increases were partially offset by a decrease in interest and other income of consolidated funds of \$94.8 million for the nine months ended September 30, 2014 as compared to 2013.

Fund Management Fees. Fund management fees increased \$153.5 million, or 21%, to \$885.0 million for the nine months ended September 30, 2014 as compared to 2013. In addition, fund management fees from consolidated funds increased \$7.2 million for the nine months ended September 30, 2014 as compared to 2013. These fees are eliminated upon consolidation of these funds.

The overall increase, inclusive of management fees eliminated from consolidated funds, was primarily due to approximately \$193.9 million of incremental management fees from the commencement of the investment period during 2013 and 2014 for certain newly raised funds and catch-up management fees from subsequent closes of funds that are in the fundraising period, approximately \$33.3 million of increased management fees from greater assets under management in ESG, Claren Road, and AlpInvest, and approximately \$27.6 million of additional management fees related to the acquisitions of Metropolitan and DGAM in November 2013 and February 2014, respectively.

Offsetting those increases were decreases in management fees of approximately \$98.5 million resulting from the change in the basis for earning management fees from commitments to invested capital for certain funds and from distributions from funds whose management fees are based on invested capital, approximately \$13.1 million in decreased management fees from lower assets under management in Vermillion, and approximately \$7.4 million in decreased management fees resulting from the liquidation of certain CLOs during 2013.

Fund management fees include transaction and portfolio advisory fees, net of rebate offsets, of \$62.1 million and \$38.4 million for the nine months ended September 30, 2014 and 2013, respectively. The \$23.7 million increase in transaction and portfolio advisory fees resulted from greater investment activity, primarily in our buyout funds, in 2014 as compared to 2013.

Performance Fees. Performance fees for the nine months ended September 30, 2014 were \$1,350.3 million compared to \$1,222.0 million for the nine months ended September 30, 2013. In addition, performance fees from consolidated funds decreased \$26.4 million for the nine months ended September 30, 2014 as compared to 2013. The performance fees from consolidated funds eliminate upon consolidation. The increased performance fees recorded in the nine months ended September 30, 2014 and 2013 were due principally to increases in the fair value of the underlying carry funds, which increased approximately 14% and 13% in total remaining value during the nine months ended September 30, 2014 and 2013, respectively. The increase in the fair value of the investments was driven primarily by asset performance and operating projections and to a lesser extent from increases in market comparables. Additionally, the investments in the AlpInvest fund of funds vehicles appreciated 24% and 13% during the nine months ended September 30, 2014 and 2013, respectively. The increases in performance fees for the nine months ended September 30, 2014 as compared to 2013 were partially offset by decreases in performance fees from our hedge funds. For the nine months ended September 30, 2013, we recognized approximately \$152.8 million of performance fees from our hedge funds, whereas performance fees for 2014 were not significant. Our private carry fund portfolio appreciated 16% during the nine months ended September 30, 2014 while our public carry fund portfolio appreciated 9% combining for the aggregate 14% appreciation during the nine months ended September 30, 2014 as compared to 13% for the nine months ended September 30, 2013. Concerns about the global economy and already high valuations triggered a sell-off in risk assets during the third quarter and into the beginning of the fourth quarter. The turmoil in risk assets also led to a sharp decline in Treasury yields and forward interest rates.

Approximately \$981.8 million and \$886.5 million of performance fees for the nine months ended September 30, 2014 and 2013, respectively, were generated by our Corporate Private Equity segment. Performance fees for the nine months ended September 30, 2014 and 2013 were \$91.6 million and \$142.4 million for the Global Market Strategies segment, \$108.8 million and \$73.7 million for the Real Assets segment, and \$168.1 million and \$119.4 million for the Solutions segment, respectively. Further, approximately \$897.2 million of our performance fees for the nine months ended September 30, 2014 were related to

CP V and CEP III, while \$771.4 million of our performance fees for the nine months ended September 30, 2013 were related to CP V and CP IV. See “— Key Financial Measures — Revenues — Performance Fees” for information on the allocation of performance fees derived from the AlpInvest fund of funds vehicles between the Partnership and the historical owners and management team of AlpInvest.

Investment Income. Investment income of \$33.6 million for the nine months ended September 30, 2014 increased \$17.2 million over investment income of \$16.4 million for the nine months ended September 30, 2013. The increase relates primarily to an investment gain of \$22.5 million associated with the sale of a European real estate investment during the nine months ended September 30, 2014. In addition, investment losses from Consolidated Funds decreased \$22.1 million for the nine months ended September 30, 2014 as compared to 2013, which was primarily due to \$32.0 million of net investment losses in the nine months ended September 30, 2013 from investments in Urbplan through the consolidated Carlyle vehicle. The income from Consolidated Funds is eliminated upon consolidation.

Interest and Other Income. Interest and other income increased \$7.4 million to \$16.6 million for the nine months ended September 30, 2014, as compared to \$9.2 million for 2013.

Interest and Other Income of Consolidated Funds. Interest and other income of Consolidated Funds was \$728.5 million for the nine months ended September 30, 2014, a decrease of \$94.8 million from \$823.3 million for the nine months ended September 30, 2013. Our CLOs generate interest income primarily from investments in bonds and loans inclusive of amortization of discounts and generate other income from consent and amendment fees. Also included in this balance is interest income and dividend income recognized by the consolidated fund of funds vehicles and consolidated hedge funds. The decrease during these periods is due primarily to lower interest and dividend income recognized by the consolidated fund of funds vehicles in 2014 as compared to 2013. Substantially all interest and other income of the CLOs and other consolidated funds together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds’ limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

Revenue of a Consolidated Real Estate VIE. Revenue of a consolidated real estate VIE was \$27.2 million for the nine months ended September 30, 2014. This balance reflects revenue earned for land development services of approximately \$15.8 million and investment income earned on Urbplan’s investments of approximately \$11.4 million. The Partnership began consolidating Urbplan on September 30, 2013.

Expenses

Expenses were \$2,846.7 million for the nine months ended September 30, 2014, an increase of \$353.9 million from \$2,492.8 million for the nine months ended September 30, 2013. The increase primarily is due to increases in total compensation and benefits, interest and other expenses of a consolidated real estate VIE, and interest and other expenses of consolidated funds, which increased \$143.3 million, \$129.5 million, and \$87.4 million, respectively.

Total compensation and benefits for the nine months ended September 30, 2014 increased \$143.3 million, or 10%, from \$1,420.0 million for the nine months ended September 30, 2013 to \$1,563.3 million for the nine months ended September 30, 2014. The increase in total compensation and benefits reflects an increase in performance fee related compensation expense of \$77.9 million, an increase in base compensation expense of \$59.5 million, and an increase in equity-based compensation expense of \$5.9 million.

Compensation and Benefits. Base compensation and benefits increased \$59.5 million, or 11%, for the nine months ended September 30, 2014 as compared to 2013, which primarily relates to increased headcount, promotions, and estimated bonuses. Additionally, the increase was due to incremental compensation from the addition of professionals associated with the Partnership’s acquisitions of Metropolitan and DGAM in November 2013 and February 2014, respectively. Offsetting these increases was decreased expense associated with employment-related contingent consideration arrangements from hedge fund acquisitions of approximately \$42.9 million as a result of updated assumptions used to determine the expected payment of the contingent consideration.

Equity-based compensation increased \$5.9 million for the nine months ended September 30, 2014 as compared to 2013. The increase in equity-based compensation is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014. The increase was partially offset by lower expense in 2014 as compared to 2013 related to the expense recognized on vesting for the difference between the estimated forfeitures and actual forfeitures on Carlyle Holdings partnership units that vested during the period.

Performance fee related compensation expense increased \$77.9 million for the nine months ended September 30, 2014 as compared to 2013. Performance fee related compensation as a percentage of performance fees was 51% and 50% for the nine months ended September 30, 2014 and 2013, respectively.

General, Administrative and Other Expenses. General, administrative and other expenses increased \$2.3 million for the nine months ended September 30, 2014 as compared to 2013. This increase was driven primarily from an increase in impairment losses of \$9.8 million and higher professional fees in 2014 as compared to 2013. These increases were offset by lower fundraising costs.

Interest. Interest expense for the nine months ended September 30, 2014 was \$41.1 million, an increase of \$7.3 million from 2013. The increase was due primarily to the interest on \$400 million and \$200 million of 5.625% senior notes due 2043 issued in March 2013 and March 2014, respectively. The increase in interest expense from 2013 to 2014 was partially offset by \$1.9 million of expense recorded in 2013 related to deferred financing costs expensed upon the early extinguishment of debt.

Interest and Other Expenses of Consolidated Funds. Interest and other expenses of Consolidated Funds increased \$87.4 million for the nine months ended September 30, 2014 as compared to 2013. This increase relates primarily to the six new CLOs formed throughout 2013 and the six new CLOs formed in 2014. The CLOs incur interest expense on their loans payable and incur other expenses consisting of trustee fees, rating agency fees and professional fees. Substantially all interest and other income of the CLOs and other consolidated funds together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

Interest and Other Expenses of a Consolidated Real Estate VIE. Interest and other expenses of a consolidated real estate VIE were \$129.5 million for the nine months ended September 30, 2014. This balance reflects expenses incurred by Urbplan, consisting primarily of interest expense inclusive of the fair value adjustment on Urbplan loans (\$65.7 million), costs associated with land development services (\$25.3 million), general and administrative expenses (\$30.0 million), and compensation and benefits (\$8.5 million). The Partnership began consolidating Urbplan on September 30, 2013.

Other Non-operating (Income) Expense. Other non-operating income of \$14.0 million for the nine months ended September 30, 2014 compares to other non-operating expense of \$1.9 million for the nine months ended September 30, 2013. Included in this caption is the change in the fair value of contingent consideration associated with the Partnership's acquisitions. During the nine months ended September 30, 2014, the overall estimated fair value of the contingent consideration associated with the Partnership's hedge fund acquisitions decreased; the overall decrease was due primarily to updated assumptions in the probability-weighted discounted cash flow models used to estimate the fair value.

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

Net Investment Gains of Consolidated Funds

For the nine months ended September 30, 2014, net investment gains of Consolidated Funds were \$994.5 million, as compared to gains of \$420.1 million for the nine months ended September 30, 2013. This balance is predominantly driven by our consolidated AlpInvest fund of funds vehicles, CLOs, and hedge funds. For the consolidated CLOs, the amount reflects the net gain or loss on the fair value adjustment of both assets and liabilities. The components of net investment gains (losses) of consolidated funds for the respective periods are:

	Nine Months Ended September 30,	
	2014	2013
	(Dollars in millions)	
Realized gains	\$1,194.4	\$556.3
Net change in unrealized gains (losses)	(43.0	) 443.7
Total gains	1,151.4	1,000.0
Losses from liabilities of CLOs	(158.4	) (579.6
Gains (losses) on other assets of CLOs	1.5	(0.3
Total	\$994.5	\$420.1

The realized and unrealized investment gains/losses primarily include the appreciation/depreciation of the equity investments within the consolidated AlpInvest fund of funds vehicles, the appreciation/depreciation of CLO investments in loans and bonds, as well as the appreciation/depreciation of investments made by our consolidated hedge funds and other consolidated funds. The losses on the liabilities of the CLOs reflect the fair value adjustment on the debt of the CLOs. The net investment gains for the nine months ended September 30, 2014 and 2013 were due primarily to net investment gains attributable to the consolidated AlpInvest fund of funds vehicles of \$1,245.4 million and \$648.0 million, respectively, net investment gains attributable to the consolidated hedge funds of \$0.1 million and \$265.9 million, respectively, net investment losses attributable to the other consolidated funds of \$(8.7) million and \$(32.4) million, respectively, and the net depreciation of CLOs of \$242.3 million and \$461.4 million, respectively.

Net Income Attributable to Non-controlling Interests in Consolidated Entities

Net income attributable to non-controlling interests in consolidated entities was \$747.4 million for the nine months ended September 30, 2014 compared to \$441.4 million for the nine months ended September 30, 2013. These amounts are primarily attributable to the net earnings or losses of the Consolidated Funds for each period, which are substantially all allocated to the related funds' limited partners or CLO investors. This balance also includes the allocation of Urbplan's net losses that are attributable to non-controlling interests.

For the nine months ended September 30, 2014, the net income of our Consolidated Funds was approximately \$785.4 million. This income was substantially due to the consolidated AlpInvest fund of funds vehicles. The net income from the consolidated AlpInvest fund of funds vehicles was approximately \$1,159.2 million for the nine months ended September 30, 2014. The net income was partially offset by net losses from the consolidated CLOs and hedge funds of \$287.6 million and \$78.3 million, respectively, for the nine months ended September 30, 2014. The CLOs' investments depreciated in value and the fair value of the CLOs' liabilities appreciated, thereby creating a net loss for this period.

The net income of our Consolidated Funds was approximately \$378.5 million for the nine months ended September 30, 2013. This income was substantially due to the income from the consolidated AlpInvest fund of funds vehicles and our hedge funds. The net income from the consolidated AlpInvest fund of funds vehicles and the hedge funds was approximately \$619.7 million and \$184.6 million, respectively, for the nine months ended September 30, 2013. The net income was partially offset by net losses from the consolidated CLOs of \$391.1 million for the nine months ended September 30, 2013.

Net Income Attributable to The Carlyle Group L.P.

The net income attributable to the Partnership was \$69.5 million and \$32.8 million for the nine months ended September 30, 2014 and 2013, respectively. The Partnership is allocated a portion of the net income attributable to Carlyle Holdings based on the Partnership's ownership in Carlyle Holdings (which was approximately 21% and 16% as of September 30, 2014 and 2013, respectively). For the nine months ended September 30, 2014 and 2013, the net income attributable to Carlyle Holdings was \$377.7 million and \$228.9 million, respectively. Additionally, the

Partnership is allocated 100% of the net income or loss

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attributable to the Partnership's wholly-owned taxable subsidiaries, which was \$(5.7) million and \$2.0 million for the nine months ended September 30, 2014 and 2013, respectively.

Non-GAAP Financial Measures

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

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	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
(Dollars in millions)				
Segment Revenues				
Fund level fee revenues				
Fund management fees	\$318.8	\$281.2	\$924.4	\$771.2
Portfolio advisory fees, net	4.1	5.0	11.6	15.3
Transaction fees, net	17.8	5.9	50.5	23.1
Total fund level fee revenues	340.7	292.1	986.5	809.6
Performance fees				
Realized	175.3	103.1	835.5	544.6
Unrealized	48.6	219.6	542.6	604.4
Total performance fees	223.9	322.7	1,378.1	1,149.0
Investment income (loss)				
Realized	(2.7	) (0.7	) 14.1	4.6
Unrealized	6.2	(2.1	) (23.2	) 2.5
Total investment income (loss)	3.5	(2.8	) (9.1	) 7.1
Interest and other income	8.5	2.6	17.7	9.0
Total revenues	576.6	614.6	2,373.2	1,974.7
Segment Expenses				
Compensation and benefits				
Direct base compensation	138.3	111.4	396.2	320.4
Indirect base compensation	47.0	41.2	140.3	109.8
Equity-based compensation	23.8	4.0	57.3	10.8
Performance fee related				
Realized	75.9	41.8	363.4	224.0
Unrealized	23.8	123.7	322.2	290.6
Total compensation and benefits	308.8	322.1	1,279.4	955.6
General, administrative, and other indirect expenses	82.1	80.0	230.8	224.3
Depreciation and amortization expense	5.4	6.2	16.4	18.7
Interest expense	14.5	11.8	41.2	31.9
Total expenses	410.8	420.1	1,567.8	1,230.5
Economic Net Income	\$165.8	\$194.5	\$805.4	\$744.2
(-) Net Performance Fees	124.2	157.2	692.5	634.4
(-) Investment Income (Loss)	3.5	(2.8	) (9.1	) 7.1
(+) Equity-based Compensation	23.8	4.0	57.3	10.8
(=) Fee Related Earnings	\$61.9	\$44.1	\$179.3	\$113.5
(+) Realized Net Performance Fees	99.4	61.3	472.1	320.6
(+) Realized Investment Income (Loss)	(2.7	) (0.7	) 14.1	4.6
(=) Distributable Earnings	\$158.6	\$104.7	\$665.5	\$438.7

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Income (loss) before provision for income taxes	\$175.4	\$(8.6)	) \$1,189.0	\$729.7
Adjustments:				
Equity-based compensation issued in conjunction with the initial public offering, acquisitions and strategic investments	56.3	76.2	209.7	251.4
Acquisition related charges and amortization of intangibles	24.5	94.5	166.6	209.5
Other non-operating (income) expenses	(39.6)	) 7.6	(14.0)	) 1.9
Net (income) loss attributable to non-controlling interests in Consolidated entities	(53.2)	) 26.6	(747.4)	) (441.4)
Other adjustments ⁽¹⁾	2.4	(1.8)	) 1.5	(6.9)
Economic Net Income	\$165.8	\$194.5	\$805.4	\$744.2
Net performance fees ⁽²⁾	124.2	157.2	692.5	634.4
Investment income (loss) ⁽²⁾	3.5	(2.8)	) (9.1)	) 7.1
Equity-based compensation	23.8	4.0	57.3	10.8
Fee Related Earnings	\$61.9	\$44.1	\$179.3	\$113.5
Realized performance fees, net of related compensation	99.4	61.3	472.1	320.6
Realized investment income (loss)	(2.7)	) (0.7)	) 14.1	4.6
Distributable Earnings	\$158.6	\$104.7	\$665.5	\$438.7

(1)– Other adjustments were comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Losses associated with debt refinancing activities	\$—	\$—	\$—	\$1.9
Severance and lease terminations	2.3	(0.1)	) 4.6	3.9
Provision (benefit) for income taxes attributable to non-controlling interests in consolidated entities	0.8	—	(1.0)	) (11.7)
Other adjustments	(0.7)	) (1.7)	) (2.1)	) (1.0)
	\$2.4	\$(1.8)	) \$1.5	\$(6.9)

Nine Months Ended September 30, 2014

	Carlyle Consolidated	Adjustments ⁽³⁾	Total Reportable Segments
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(Dollars in millions)

Performance fees			
Realized	\$843.9	\$(8.4) \$835.5
Unrealized	506.4	36.2	542.6
Total performance fees	1,350.3	27.8	1,378.1
Performance fee related compensation expense			
Realized	368.3	(4.9	) 363.4
Unrealized	316.3	5.9	322.2
Total performance fee related compensation expense	684.6	1.0	685.6
Net performance fees			
Realized	475.6	(3.5	) 472.1
Unrealized	190.1	30.3	220.4
Total net performance fees	\$665.7	\$26.8	\$692.5
Investment income (loss)			
Realized	\$29.4	\$(15.3	) \$14.1
Unrealized	4.2	(27.4	) (23.2
Investment income (loss)	\$33.6	\$(42.7	) \$(9.1

Nine Months Ended September 30, 2013

	Carlyle Consolidated	Adjustments ⁽³⁾	Total Reportable Segments
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(Dollars in millions)

Performance fees			
Realized	\$564.6	\$(20.0) \$544.6
Unrealized	657.4	(53.0) 604.4
Total performance fees	1,222.0	(73.0	) 1,149.0
Performance fee related compensation expense			
Realized	232.2	(8.2	) 224.0
Unrealized	374.5	(83.9	) 290.6
Total performance fee related compensation expense	606.7	(92.1	) 514.6
Net performance fees			
Realized	332.4	(11.8	) 320.6
Unrealized	282.9	30.9	313.8
Total net performance fees	\$615.3	\$19.1	\$634.4
Investment income (loss)			
Realized	\$5.4	\$(0.8	) \$4.6
Unrealized	11.0	(8.5	) 2.5
Total investment income (loss)	\$16.4	\$(9.3	) \$7.1

(3) Adjustments to performance fees and investment income relate to amounts earned from the Consolidated Funds, which were eliminated in the U.S. GAAP consolidation but were included in the Non-GAAP results, and amounts attributable to non-controlling interests in consolidated entities, which were excluded from the Non-GAAP results. Adjustments to investment income (loss) also include the reclassification of earnings for the investment in NGP Management to the appropriate operating captions for the Non-GAAP results, the exclusion of charges associated with the investment in NGP Management that are excluded from the Non-GAAP results and adjustments to reflect

the Partnership's share of Urbplan net losses as investment losses for the Non-GAAP results. Adjustments are also included in these financial

statement captions to reflect Carlyle's 55% economic interest in each of Claren Road, ESG and Vermillion and Carlyle's 60% economic interest in AlpInvest (for periods prior to August 1, 2013), in the Non-GAAP results.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Economic Net Income (Loss)				
Corporate Private Equity	\$ 159.0	\$ 159.4	\$ 625.1	\$ 505.0
Global Market Strategies	1.2	10.1	101.8	161.2
Real Assets	10.8	0.4	17.3	31.6
Solutions	(5.2	) 24.6	61.2	46.4
Economic Net Income (Loss)	\$ 165.8	\$ 194.5	\$ 805.4	\$ 744.2
Distributable Earnings				
Corporate Private Equity	\$ 116.7	\$ 53.6	\$ 526.6	\$ 251.4
Global Market Strategies	22.9	24.2	67.6	111.6
Real Assets	8.0	11.5	36.1	48.7
Solutions	11.0	15.4	35.2	27.0
Distributable Earnings	\$ 158.6	\$ 104.7	\$ 665.5	\$ 438.7

Segment Analysis

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

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

Corporate Private Equity

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Segment Revenues				
Fund level fee revenues				
Fund management fees	\$151.5	\$131.0	\$428.5	\$348.1
Portfolio advisory fees, net	3.8	4.7	10.6	13.7
Transaction fees, net	17.0	5.7	49.6	20.1
Total fund level fee revenues	172.3	141.4	488.7	381.9
Performance fees				
Realized	125.0	79.1	747.4	442.8
Unrealized	100.8	182.2	237.5	421.0
Total performance fees	225.8	261.3	984.9	863.8
Investment income				
Realized	6.4	1.6	10.3	5.1
Unrealized	3.8	5.5	13.2	10.7
Total investment income	10.2	7.1	23.5	15.8
Interest and other income	4.7	1.5	8.7	4.2
Total revenues	413.0	411.3	1,505.8	1,265.7
Segment Expenses				
Compensation and benefits				
Direct base compensation	67.0	53.9	189.4	158.9
Indirect base compensation	25.9	27.6	73.4	69.4
Equity-based compensation	12.9	2.1	30.1	5.9
Performance fee related				
Realized	52.7	34.6	326.4	201.3
Unrealized	49.4	79.8	122.1	172.2
Total compensation and benefits	207.9	198.0	741.4	607.7
General, administrative, and other indirect expenses	35.5	43.7	108.6	124.3
Depreciation and amortization expense	2.7	3.3	8.1	10.2
Interest expense	7.9	6.9	22.6	18.5
Total expenses	254.0	251.9	880.7	760.7
Economic Net Income	\$159.0	\$159.4	\$625.1	\$505.0
(-) Net Performance Fees	123.7	146.9	536.4	490.3
(-) Investment Income	10.2	7.1	23.5	15.8
(+) Equity-based Compensation	12.9	2.1	30.1	5.9
(=) Fee Related Earnings	\$38.0	\$7.5	\$95.3	\$4.8
(+) Realized Net Performance Fees	72.3	44.5	421.0	241.5
(+) Realized Investment Income	6.4	1.6	10.3	5.1
(=) Distributable Earnings	\$116.7	\$53.6	\$526.6	\$251.4

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Total fee revenues were \$172.3 million for the three months ended September 30, 2014, representing an increase of \$30.9 million, or 22%, from the three months ended September 30, 2013. This increase reflects a \$20.5 million increase in fund management fees and a \$11.3 million increase in net transaction fees. These increases were partially offset by a decrease in net portfolio advisory fees of \$0.9 million. The increase in fund management fees is partially due to increased management fees from our fourth Asia buyout fund (“CAP IV”) and our fourth Europe buyout fund (“CEP IV”). Additionally, fund management fees for these funds include \$19.7 million of catch-up management fees earned in the third quarter of 2014, primarily from subsequent closings. The weighted-average management fee rate on funds in the investment period slightly increased to 1.43% at September 30, 2014 from 1.42% at September 30, 2013. The total weighted-average management fee rate increased from 1.13% at September 30, 2013 to 1.20% at September 30, 2014. The increase in the total weighted-average management fee rate reflects new funds being raised with higher management fee rates. Fee-earning AUM as of September 30, 2014 remained relatively unchanged compared to September 30, 2013. The increase in net transaction fees was primarily due to higher investment activity, primarily in our buyout funds, in 2014 as compared to 2013.

Interest and other income was \$4.7 million for the three months ended September 30, 2014, an increase from \$1.5 million for the three months ended September 30, 2013.

Total compensation and benefits was \$207.9 million and \$198.0 million for the three months ended September 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$102.1 million and \$114.4 million, or 45% and 44% of performance fees, for the three months ended September 30, 2014 and 2013, respectively.

Direct and indirect base compensation expense increased \$11.4 million for the three months ended September 30, 2014, or 14% more than the three months ended September 30, 2013. The increase is primarily due to incremental compensation costs related to promotions and estimated bonuses and, to a lesser extent, headcount.

Equity-based compensation was \$12.9 million for the three months ended September 30, 2014, an increase from \$2.1 million for the three months ended September 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014.

General, administrative and other indirect expenses decreased \$8.2 million for the three months ended September 30, 2014 as compared to 2013. The decrease is primarily due to lower external costs associated with fundraising activities in the third quarter of 2014 as compared to 2013.

Depreciation and amortization expense was \$2.7 million for the three months ended September 30, 2014, a decrease from \$3.3 million in 2013.

Interest expense increased \$1.0 million, or 14%, for the three months ended September 30, 2014 as compared to 2013. The increase was due primarily to the allocated interest on \$200 million of 5.625% senior notes due 2043 issued in March 2014.

Economic Net Income. ENI was \$159.0 million for the three months ended September 30, 2014, reflecting a \$0.4 million decrease as compared to ENI of \$159.4 million for the three months ended September 30, 2013. The decrease in ENI in the third quarter of 2014 was due to a decrease in net performance fees of \$23.2 million and an increase in equity-based compensation of \$10.8 million. These decreases were partially offset by an increase in fee related earnings of \$30.5 million and an increase in investment income of \$3.1 million.

Fee Related Earnings. Fee related earnings were \$38.0 million for the three months ended September 30, 2014, as compared to \$7.5 million for the three months ended September 30, 2013, representing an increase of \$30.5 million. The increase in fee related earnings is primarily attributable to an increase in fee revenues of \$30.9 million and a decrease in general, administrative and other indirect expenses of \$8.2 million. These increases in fee related earnings were partially offset by an increase in direct and indirect base compensation of \$11.4 million.

Performance Fees. Performance fees decreased \$35.5 million for the three months ended September 30, 2014 as compared to 2013. Performance fees of \$225.8 million and \$261.3 million are inclusive of performance fees reversed of approximately \$59.1 million and \$19.8 million during the three months ended September 30, 2014 and 2013, respectively. Performance fees and appreciation in remaining value of assets for this segment by type of fund are as follows:

	Performance Fees		Appreciation	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Buyout funds	\$184.6	\$246.3	3%	5%
Growth Capital funds	41.2	15.0	8%	7%
Total	\$225.8	\$261.3	3%	5%

The \$225.8 million in performance fees for the three months ended September 30, 2014 was driven primarily by performance fees for CEP III, CP V, and CP IV of \$125.0 million, \$90.2 million and \$(29.9) million, respectively. Comparatively, the \$261.3 million in performance fees for the three months ended September 30, 2013 was driven primarily by performance fees for CP V, CP IV, and CGFSP I, of \$120.6 million, \$94.0 million and \$32.6 million, respectively.

During the three months ended September 30, 2014, net performance fees were \$123.7 million or 55% of performance fees and \$23.2 million less than the net performance fees in the third quarter of 2013.

Investment Income. Investment income for the three months ended September 30, 2014 was \$10.2 million compared to \$7.1 million in the third quarter of 2013. The increase in investment income from 2013 to 2014 relates primarily to increased gains on investments in certain U.S. growth capital and Europe buyout funds.

Distributable Earnings. Distributable earnings increased \$63.1 million for the three months ended September 30, 2014 to \$116.7 million from \$53.6 million for the same period in 2013. This increase primarily reflects an increase in fee related earnings of \$30.5 million, an increase in realized net performance fees of \$27.8 million, and an increase in realized investment income of 4.8 million.

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Total fee revenues were \$488.7 million for the nine months ended September 30, 2014, representing an increase of \$106.8 million, or 28%, from the nine months ended September 30, 2013. This increase reflects a \$80.4 million increase in fund management fees and a \$29.5 million increase in net transaction fees. These increases were partially offset by a decrease in net portfolio advisory fees of \$3.1 million. The increase in fund management fees is partially due to CP VI and CAP IV beginning their investment periods in 2013 and CEP IV beginning its investment period in 2014. Additionally, there is \$43.3 million of catch-up management fees earned in 2014, primarily from subsequent closings of CAP IV, CEP IV, and our second financial services fund ("CGFSP II"). Additionally, fund management fees for these funds includes \$19.7 million of catch-up management fees earned in the third quarter of 2014, primarily from subsequent closings. The weighted-average management fee rate on funds in the investment period slightly increased to 1.43% at September 30, 2014 from 1.42% at September 30, 2013. The total weighted-average management fee rate increased from 1.13% at September 30, 2013 to 1.20% at September 30, 2014. The increase in the total weighted-average management fee rate reflects new funds being raised with higher management fee rates. Fee-earning AUM as of September 30, 2014 remained relatively unchanged compared to September 30, 2013. The increase in net transaction fees was primarily due to higher investment activity, primarily in our buyout funds, in 2014 as compared to 2013.

Interest and other income was \$8.7 million for the nine months ended September 30, 2014, an increase from \$4.2 million for the nine months ended September 30, 2013.

Total compensation and benefits was \$741.4 million and \$607.7 million for the nine months ended September 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$448.5 million and \$373.5 million,

or 46% and 43% of performance fees, for the nine months ended September 30, 2014 and 2013, respectively.

Direct and indirect base compensation expense increased \$34.5 million for the nine months ended September 30, 2014, or 15% more than the nine months ended September 30, 2013. The increase is primarily due to incremental compensation costs related to increased headcount, promotions, and estimated bonuses.

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Equity-based compensation was \$30.1 million for the nine months ended September 30, 2014, an increase from \$5.9 million for the nine months ended September 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses decreased \$15.7 million for the nine months ended September 30, 2014 as compared to 2013. The decrease is primarily due to lower external costs associated with fundraising activities in 2014 as compared to 2013.

Depreciation and amortization expense was \$8.1 million for the nine months ended September 30, 2014, a decrease from \$10.2 million in 2013.

Interest expense increased \$4.1 million, or 22%, for the nine months ended September 30, 2014 as compared to 2013. The increase was due primarily to the allocated interest on \$400 million and \$200 million of 5.625% senior notes due 2043 issued in March 2013 and March 2014, respectively.

Economic Net Income. ENI was \$625.1 million for the nine months ended September 30, 2014, reflecting a 24% increase as compared to ENI of \$505.0 million for the nine months ended September 30, 2013. The increase in ENI for the nine months ended September 30, 2014 was due to an increase in fee related earnings of \$90.5 million, an increase in net performance fees of \$46.1 million, and an increase in investment income of \$7.7 million. These increases were partially offset by an increase in equity-based compensation of \$24.2 million.

Fee Related Earnings. Fee related earnings were \$95.3 million for the nine months ended September 30, 2014, as compared to \$4.8 million for the nine months ended September 30, 2013, representing an increase of \$90.5 million. The increase in fee related earnings is primarily attributable to an increase in fee revenues of \$106.8 million and a decrease in general, administrative and other indirect expenses of \$15.7 million. These increases in fee related earnings were partially offset by an increase in direct and indirect base compensation of \$34.5 million.

Performance Fees. Performance fees increased \$121.1 million for the nine months ended September 30, 2014 as compared to 2013. Performance fees of \$984.9 million and \$863.8 million are inclusive of performance fees reversed of approximately \$115.2 million and \$7.9 million during the nine months ended September 30, 2014 and 2013, respectively. Performance fees and appreciation in remaining value of assets for this segment by type of fund are as follows:

	Performance Fees		Appreciation	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Buyout funds	\$893.0	\$844.4	16%	20%
Growth Capital funds	91.9	19.4	23%	11%
Total	\$984.9	\$863.8	16%	20%

The \$984.9 million in performance fees for the nine months ended September 30, 2014 was driven primarily by performance fees for CEP III, CP V, and Carlyle Asia Partners II, L.P. ("CAP II"), our second Asia buyout fund, of \$464.3 million, \$427.0 million, and \$(86.4) million, respectively. Comparatively, the \$863.8 million in performance fees for the nine months ended September 30, 2013 was driven primarily by performance fees for CP V and CP IV of \$461.1 million and \$291.7 million, respectively.

The year-to-date appreciation for 2013 included significant appreciation of the assets within CEP III. However, through the third quarter of 2013, CEP III had not yet exceeded its performance threshold, and therefore no performance fees had been recognized. CEP III exceeded its performance threshold in the fourth quarter of 2013. For the nine months ended September 30, 2014, the assets in CEP III have continued to appreciate, resulting in the recognition of \$464.3 million of performance fees during that period.

During the nine months ended September 30, 2014, net performance fees were \$536.4 million or 54% of performance fees and \$46.1 million more than the net performance fees in the nine months ended September 30, 2013.

Investment Income. Investment income for the nine months ended September 30, 2014 was \$23.5 million compared to \$15.8 million in the nine months ended September 30, 2013. The increase in investment income from 2013 to 2014 relates primarily to higher gains on investments in certain U.S. growth capital and Europe buyout funds.

Distributable Earnings. Distributable earnings increased \$275.2 million for the nine months ended September 30, 2014 to \$526.6 million from \$251.4 million for the same period in 2013. This increase primarily reflects an increase in realized net performance fees of \$179.5 million, an increase in fee related earnings of \$90.5 million, and an increase in realized investment income of 5.2 million.

Fee-earning AUM as of and for the Three and Nine Months Ended September 30, 2014 and 2013

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

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

	As of September 30,		
	2014	2013	
	(Dollars in millions)		
Corporate Private Equity			
Components of Fee-earning AUM (1)			
Fee-earning AUM based on capital commitments	\$21,903	\$16,890	
Fee-earning AUM based on invested capital	18,680	25,023	
Fee-earning AUM based on lower of cost or fair value	1,368	—	
Total Fee-earning AUM	\$41,951	\$41,913	
Weighted Average Management Fee Rates (2)			
All Funds	1.20	% 1.13	%
Funds in Investment Period	1.43	% 1.42	%

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

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Dollars in millions)		(Dollars in millions)	
Corporate Private Equity				
Fee-earning AUM Rollforward				
Balance, Beginning of Period	\$43,041	\$38,507	\$43,033	\$33,840
Inflows, including Fee-paying Commitments (1)	1,396	3,877	4,250	14,500
Outflows, including Distributions (2)	(1,839)	) (761)	) (4,734)	) (5,813)
Market Appreciation/(Depreciation) (3)	(9)	) —	35	—
Foreign Exchange and other (4)	(638)	) 290	(633)	) (614)
Balance, End of Period	\$41,951	\$41,913	\$41,951	\$41,913

(1) Inflows represent limited partner capital raised and capital invested by carry funds outside the investment period.

(2) Outflows represent distributions from funds outside the investment period and changes in fee basis for our carry funds where the investment period has expired.

(3) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments in our carry funds based on the lower of cost or fair value.

Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated (4) funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of period end.

Fee-earning AUM was \$42.0 billion at September 30, 2014, a decrease of \$1.0 billion, or approximately 3%, compared to \$43.0 billion at June 30, 2014. Outflows of \$1.8 billion, which includes a reduction for our second European buyout fund ("CEP II"), which will no longer be calling fees, in addition to the impact of distributions in several funds outside of the investment period and \$0.6 billion of foreign exchange loss. Offsetting these outflows were inflows of \$1.4 billion, primarily a result of limited partner commitments raised by CAP IV, CEP IV, and our third Europe technology fund ("CETP III"). This was offset by Investment and distribution activity by funds still in the investment period does not impact Fee-earning AUM as these funds are based on commitments.

Fee-earning AUM was \$42.0 billion at September 30, 2014, a decrease of \$1.0 billion, or approximately 3%, compared to \$43.0 billion at December 31, 2013. Outflows of \$4.7 billion, which includes a reduction in fee basis from commitments to invested capital for our fourth Asia growth buyout fund ("CAGP IV"), a reduction for CEP II no longer calling fees, in addition to distributions in funds outside the investment period. This was offset by inflows of \$4.3 billion were primarily a result of limited partner commitments raised by CAP IV, CEP IV, CGFSP II, and CETP III, along with investments in funds outside of their original investment period.

Fee-earning AUM was \$42.0 billion at September 30, 2014, an increase of \$0.1 billion, or less than 1%, compared to \$41.9 billion at September 30, 2013. This increase reflects \$7.0 billion in new limited partner commitments raised by CP VI, CEP IV, CAP IV and CGFSP II and investments in funds outside of their original investment period. This increase is offset by \$6.4 billion of distributions in various funds outside of their original investment period, a reduction in fee basis from commitment to invested capital due to the expiration of the original investment periods for CAGP IV and CEP III, in addition to the elimination of fees for CEP II.

Fee-earning AUM was \$41.9 billion at September 30, 2013, an increase of \$3.4 billion, or approximately 9%, compared to \$38.5 billion at June 30, 2013. Inflows of \$3.9 billion were primarily a result of limited partner commitments raised by CP VI, CEP IV, CAP IV, CJP III, and CSSAF I. This was offset by outflows of \$0.8 billion, which includes the corresponding change in fee basis from commitments to invested capital for our Middle East ("MENA") fund, in addition to the impact of distributions in funds outside of the investment period, and a \$0.3 billion foreign exchange gain.

Fee-earning AUM was \$41.9 billion at September 30, 2013, an increase of \$8.1 billion, or approximately 24%, compared to \$33.8 billion at December 31, 2012. Inflows of \$14.5 billion were primarily a result of limited partner commitments raised by CP VI, CEP IV, CAP IV, CJP III, and CSSAF I. This was offset by outflows of \$5.8 billion, which includes the corresponding change in fee basis for CP V, CAP III and CGFSP I, in addition to distributions in funds outside the investment period and a \$0.6 billion foreign exchange loss.

Total AUM as of and for the Three and Nine Months Ended September 30, 2014 and 2013

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

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Available Capital (Dollars in millions)	Fair Value of Capital	Total AUM	Available Capital (Dollars in millions)	Fair Value of Capital	Total AUM
Corporate Private Equity						
Balance, Beginning of Period	\$23,284	\$41,198	\$64,482	\$24,743	\$40,122	\$64,865
Commitments (1)	1,350	—	1,350	3,996	—	3,996
Capital Called, net (2)	(2,137)	1,919	(218)	(6,524)	5,984	(540)
Distributions (3)	582	(2,966)	(2,384)	905	(11,107)	(10,202)
Market						
Appreciation/(Depreciation) (4)	—	1,538	1,538	—	6,642	6,642
Foreign Exchange and other (5)	(326)	(863)	(1,189)	(367)	(815)	(1,182)
Balance, End of Period	\$22,753	\$40,826	\$63,579	\$22,753	\$40,826	\$63,579

(1) Represents capital raised by our carry funds, net of expired available capital.

(2) Represents capital called by our carry funds, net of fund fees and expenses. Equity invested amounts may vary from capital called due to timing differences between acquisition and capital call dates.

(3) Represents distributions from our carry funds, net of amounts recycled. Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.

(4) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments.

(5) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Total AUM was \$63.6 billion at September 30, 2014, a decrease of \$0.9 billion, or approximately 1%, compared to \$64.5 billion as of June 30, 2014. This was primarily driven by \$1.4 billion in new commitments for several funds and co-investment vehicles, including CEP IV, CAP IV, and the first close of CETP III, and market appreciation of \$1.5 billion. Our portfolio experienced a 3% increase in value over the period, due to a 3% increase across our buyout funds, and an 8% increase across our growth capital funds. The 3% increase in our buyout funds was primarily driven by appreciation in CP V and CEP III. These increases were offset by net distributions of \$2.4 billion and \$1.2 billion in foreign exchange loss.

Total AUM was \$63.6 billion at September 30, 2014, a decrease of \$1.3 billion, or approximately 2%, compared to \$64.9 billion at December 31, 2013. This decrease was primarily driven by distributions of \$10.2 billion, of which \$0.9 billion was recycled back into available commitments and \$1.2 billion of foreign exchange loss. This decrease was offset by new commitments of \$4.0 billion for several funds and co-investment vehicles, including CP VI, CEP IV and CAP IV, as well as \$6.6 billion of market appreciation across our portfolio, which experienced a 16% increase in value over the period, due to a 16% increase across our buyout funds, and a 23% increase across our growth capital funds. The 13% increase in our buyout funds was primarily driven by appreciation in CEP III, CEP II, and CP V.

Fund Performance Metrics

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

assurance that any of our funds or our other existing and future funds will achieve similar returns.

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

	TOTAL INVESTMENTS							REALIZED/PARTIALLY REALIZED INVESTMENTS(5)		
	as of September 30, 2014							as of September 30, 2014		
	Fund Inception Date(1)	Committed Capital	Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(7)	Net IRR(8)	Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)
Corporate Private Equity (Reported in Local Currency, in Millions)							Corporate Private Equity (Reported in Local Currency, in Millions)			
Fully Invested Funds(6)										
CP II	10/1994	\$1,331.1	\$1,362.4	\$4,072.2	3.0x	34	% 25	% \$1,362.4	\$4,072.2	3.0x
CP III	2/2000	\$3,912.7	\$4,031.6	\$10,146.9	2.5x	27	% 21	% \$4,031.6	\$10,146.9	2.5x
CP IV	12/2004	\$7,850.0	\$7,612.6	\$17,606.5	2.3x	16	% 13	% \$6,079.0	\$16,196.1	2.7x
CP V	5/2007	\$13,719.7	\$12,758.5	\$23,287.1	1.8x	19	% 14	% \$5,254.7	\$12,363.6	2.4x
CEP I	12/1997	€1,003.6	€981.6	€2,126.5	2.2x	18	% 11	% €981.6	€2,126.5	2.2x
CEP II	9/2003	€1,805.4	€2,048.6	€3,946.7	1.9x	37	% 20	% €1,329.1	€3,315.9	2.5x
CEP III	12/2006	€5,294.9	€4,985.0	€9,169.7	1.8x	18	% 13	% €1,862.6	€5,057.0	2.7x
CAP I	12/1998	\$750.0	\$627.7	\$2,492.6	4.0x	25	% 18	% \$627.7	\$2,492.6	4.0x
CAP II	2/2006	\$1,810.0	\$1,628.6	\$2,784.8	1.7x	11	% 8	% \$720.0	\$2,128.1	3.0x
CAP III	5/2008	\$2,551.6	\$2,406.1	\$3,654.6	1.5x	17	% 10	% \$984.4	\$1,956.0	2.0x
CJP I	10/2001	¥50,000.0	¥47,291.4	¥135,675.8	2.9x	61	% 37	% ¥39,756.6	¥131,454.6	3.3x
CJP II	7/2006	¥165,600.0	¥141,866.7	¥161,591.4	1.1x	3	%(1)	%) ¥39,306.1	¥85,193.3	2.2x
CGFSP I	9/2008	\$1,100.2	\$1,043.6	\$1,687.5	1.6x	17	% 11	% \$218.1	\$529.8	2.4x
CETP II	2/2007	€521.6	€431.5	€901.6	2.1x	25	% 16	% €149.8	€529.3	3.5x
All Other Funds(9)	Various		\$3,767.5	\$5,852.2	1.6x	17	% 7	% \$2,829.5	\$4,806.9	1.7x
Coinvestments and Other(10)	Various		\$8,315.0	\$20,162.8	2.4x	36	% 33	% \$5,303.6	\$16,271.3	3.1x
Total Fully Invested Funds			\$55,946.4	\$114,848.0	2.1x	27	% 19	% \$33,591.7	\$86,868.2	2.6x
Funds in the Investment Period(6)										
CP VI(12)	5/2012	\$13,000.0	\$3,628.9	\$3,516.2	1.0x	n/m	n/m			
CEP IV(12)	8/2013	€1,261.9	€193.8	€185.8	1.0x	n/m	n/m			
CAP IV(12)	11/2012	\$3,880.4	\$365.0	\$340.2	0.9x	n/m	n/m			
CAGP IV	6/2008	\$1,041.4	\$771.6	\$1,107.0	1.4x	15	% 8	%		
CEOF I	5/2011	\$1,119.1	\$770.4	\$1,153.7	1.5x	39%	26%			
CGFSP II(12)	4/2013	\$1,000.0	\$90.4	\$109.6	1.2x	n/m	n/m			
All Other Funds(11)	Various		\$1,036.9	\$997.9	1.0x	(4)	%(18)	%)		
Total Funds in the Investment Period			\$6,908.0	\$7,459.2	1.1x	10	%(5)	%) \$258.9	\$798.3	3.1x
TOTAL CORPORATE PRIVATE EQUITY(13)			\$62,854.4	\$122,307.2	1.9x	26	% 19	% \$33,850.5	\$87,666.5	2.6x

The data presented herein that provides “inception to date” performance results of our segments relates to the period (1) following the formation of the first fund within each segment. For our Corporate Private Equity segment our first fund was formed in 1990.

(2) Represents the original cost of all capital called for investments since inception of the fund.

(3) Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.

(4) Multiple of invested capital (“MOIC”) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.

An investment is considered realized when the investment fund has completely exited, and ceases to own an interest in, the investment. An investment is considered partially realized when the total amount of proceeds received in respect of such investment, including dividends, interest or other distributions and/or return of capital, represents at least 85% of invested capital and such investment is not yet fully realized. Because part of our value creation strategy involves pursuing best exit alternatives, we believe information regarding Realized/Partially Realized MOIC and Gross IRR, when considered together with the other investment performance metrics presented, provides investors with meaningful information regarding our investment performance by removing the impact of investments where significant realization activity has not yet occurred. Realized/Partially Realized MOIC and Gross IRR have limitations as measures of investment performance, and should not be considered in isolation. Such limitations include the fact that these measures do not include the performance of earlier stage and other investments that do not satisfy the criteria provided above. The exclusion of such investments will have a positive impact on Realized/Partially Realized MOIC and Gross IRR in instances when the MOIC and Gross IRR in respect of such investments are less than the aggregate MOIC and Gross IRR. Our measurements of Realized/Partially Realized MOIC and Gross IRR may not be comparable to those of other companies that use similarly titled measures. We do not present Realized/Partially Realized performance information separately for funds that are still in the investment period because of the relatively insignificant level of realizations for funds of this type. However, to the extent such funds have had realizations, they are included in the Realized/Partially Realized performance information presented for Total Corporate Private Equity.

Fully Invested funds are past the expiration date of the investment period as defined in the respective limited partnership agreement. In instances where a successor fund has had its first capital call, the predecessor fund is categorized as fully invested.

Gross Internal Rate of Return (“Gross IRR”) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.

Net Internal Rate of Return (“Net IRR”) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.

Aggregate includes the following funds: CP I, CMG, CVP I, CVP II, CUSGF III, CEVP, CETP I, CAVP I, CAVP II, CAGP III, Mexico, and MENA.

Includes co-investments and certain other stand-alone investments arranged by us.

Aggregate includes the following funds: CJP III, CSABF, CSSAF, CBPF, CPF I, CCI, and CETP III.

Returns are not considered meaningful, as the investment period commenced in May 2012 for CP VI, November 2012 for CAP IV, April 2013 for CGFSP II, and August 2013 for CEP IV.

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

	Remaining Fair Value(1)	Unrealized MOIC(2)	Total MOIC(3)	% Invested(4)	In Accrued Carry/(Clawback) (5)	LTM Realized Carry (6)	Catch up Rate	Fee Initiation Date(7)	Quarter Since Initiation(8)	Original Investment Period End Date
As of September 30, 2014										
Corporate Private Equity (Reported in Local Currency, in Millions)										
CP V	\$12,717.4	1.9x	1.8x	93 %	X	X	100 %	Nov-07	28	May-13
CEP III	€5,249.3	1.9x	1.8x	94 %	X	X	100 %	Dec-07	28	Dec-12
CP VI	\$3,509.4	1.0x	1.0x	28 %			100 %	Oct-13	4	May-18
CP IV	\$2,354.3	1.3x	2.3x	97 %	X	X	80 %	Dec-05	36	Dec-10
CAP III	\$2,027.4	1.3x	1.5x	94 %	X		100 %	Dec-08	24	May-14
CAP II	\$1,065.8	1.1x	1.7x	90 %	(X)		80 %	Oct-06	32	Feb-12
CGFSP I	\$972.8	1.3x	1.6x	95 %	X	X	100 %	Oct-08	24	Sep-14
CEOF I	\$849.0	1.3x	1.5x	69 %	X		80 %	Dec-11	12	May-17
CJP II	¥92,051.6	0.9x	1.1x	86 %			80 %	Oct-06	32	Jul-12
CEP II	€615.0	0.9x	1.9x	113 %	X		80 %	Sep-03	45	Sep-08
CETP II	€421.2	1.4x	2.1x	83 %	X	X	100 %	Jan-08	27	Jul-13
CAP IV	\$353.6	0.9x	0.9x	9 %			100 %	Dec-13	4	Nov-18
CEP IV	€197.9	1.0x	1.0x	15 %			100 %	Sep-14	1	Aug-19
CGFSP II	\$103.0	1.2x	1.2x	9 %			100 %	Dec-13	4	Dec-17
All Other Funds(8)	\$3,008.2	1.0x	2.2x		n/m	n/m				
Coinvestment and Other(9)	\$4,821.4	1.8x	2.4x		n/m	n/m				
Total Corporate Private Equity(10)	\$40,809.8	1.5x	1.9x							

(1) Net asset value of our carry funds. Reflects significant funds with remaining fair value of greater than \$100 million.

- (2) Unrealized multiple of invested capital (“MOIC”) represents remaining fair market value, before management fees, expenses and carried interest, divided by investment cost.
- (3) Total MOIC represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital
- (4) Represents cumulative equity invested as of the reporting period divided by total commitments. Amount can be greater than 100% due to the re-investment of recallable distributions to fund investors.
- (5) Fund has accrued carry/(clawback) as of the reporting period.
- (6) Fund has realized carry in the last twelve months.
- (7) Represents the date of the first capital contribution for management fees.
Aggregate includes the following funds: CMG, CP I, CP II, CP III, CEP I, CAP I, CAP IV, CBPF, CJP I, CJP III, CEVP, CETP I, CCI, CAVP I, CAVP II, CAGP III, Mexico, MENA, CSABF, CSSAF, CPF, CVP I, CVP II, and
- (8) CUSGF III. In Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate.
Includes co-investments, prefund investments and certain other stand-alone investments arranged by us. In
- (9) Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate.
- (10) For purposes of aggregation, funds that report in foreign currency have been converted to U.S. dollars at the reporting period spot rate.

Global Market Strategies

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Segment Revenues				
Fund level fee revenues				
Fund management fees	\$65.6	\$65.7	\$192.9	\$205.8
Portfolio advisory fees, net	0.2	0.1	0.4	0.8
Transaction fees, net	0.2	—	0.2	0.1
Total fund level fee revenues	66.0	65.8	193.5	206.7
Performance fees				
Realized	11.3	5.8	26.3	47.8
Unrealized	(10.8	) (13.6	) 84.3	73.7
Total performance fees	0.5	(7.8	) 110.6	121.5
Investment income (loss)				
Realized	4.1	2.0	6.8	16.1
Unrealized	(4.3	) 3.2	(1.2	) (3.6
Total investment income (loss)	(0.2	) 5.2	5.6	12.5
Interest and other income	1.9	0.7	4.7	3.3
Total revenues	68.2	63.9	314.4	344.0
Segment Expenses				
Compensation and benefits				
Direct base compensation	29.9	23.6	83.7	74.2
Indirect base compensation	6.9	4.6	18.9	14.9
Equity-based compensation	4.0	0.6	9.9	1.6
Performance fee related				
Realized	6.1	0.8	12.4	17.2
Unrealized	2.6	3.1	39.0	18.9
Total compensation and benefits	49.5	32.7	163.9	126.8
General, administrative, and other indirect expenses	14.0	17.8	38.6	46.8
Depreciation and amortization expense	1.0	1.2	2.9	3.5
Interest expense	2.5	2.1	7.2	5.7
Total expenses	67.0	53.8	212.6	182.8
Economic Net Income	\$1.2	\$10.1	\$101.8	\$161.2
(-) Net Performance Fees	(8.2	) (11.7	) 59.2	85.4
(-) Investment Income (Loss)	(0.2	) 5.2	5.6	12.5
(+) Equity-based Compensation	4.0	0.6	9.9	1.6
(=) Fee Related Earnings	\$13.6	\$17.2	\$46.9	\$64.9
(+) Realized Net Performance Fees	5.2	5.0	13.9	30.6
(+) Realized Investment Income	4.1	2.0	6.8	16.1
(=) Distributable Earnings	\$22.9	\$24.2	\$67.6	\$111.6

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Total fee revenues were \$66.0 million for the three months ended September 30, 2014, an increase of \$0.2 million from 2013. The increase was primarily due to an increase of \$3.0 million in management fees from the Claren Road and ESG hedge funds from greater assets under management and an increase in management fees from the CLOs of approximately \$1.0 million. These increases were partially offset by \$4.0 million of lower management fees from the carry funds and \$2.0 million of lower management fees from the Vermillion hedge funds due to lower assets under management. The weighted average management fee rate on our hedge funds decreased from 1.79% to 1.75% compared to the prior year period due to higher AUM in the ESG hedge funds, which charge a lower rate, and decreases in AUM in the Vermillion hedge funds. The weighted average management fee rate on our carry funds decreased from 1.53% to 1.46% due to a step down in fee basis from commitments to invested capital on our second corporate mezzanine fund (“CMP II”).

Interest and other income was \$1.9 million for the three months ended September 30, 2014 compared to \$0.7 million for the same period in 2013.

Total compensation and benefits was \$49.5 million and \$32.7 million for the three months ended September 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$8.7 million and \$3.9 million for the three months ended September 30, 2014 and 2013, respectively. With respect to Claren Road, ESG and Vermillion, where we only include our respective 55% economic interests in our Non-GAAP results, performance fee related compensation expense can vary as a percentage of performance fees based upon a variety of factors, including absolute and relative performance to comparable peers. As a result, the percentage of performance fee related compensation expense to performance fees is generally not a comparable measurement for Global Market Strategies from period to period.

Direct and indirect base compensation increased \$8.6 million for the three months ended September 30, 2014 as compared to 2013, which primarily relates to incremental compensation costs related to increased headcount and estimated bonuses.

Equity-based compensation was \$4.0 million for the three months ended September 30, 2014, an increase of \$3.4 million from \$0.6 million for the three months ended September 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014.

General, administrative and other indirect expenses decreased \$3.8 million to \$14.0 million for the three months ended September 30, 2014 as compared to 2013. The decrease is primarily due to higher external costs associated with fundraising activities for the business development companies for the third quarter of 2013 as compared to 2014.

Depreciation and amortization expense was \$1.0 million for the three months ended September 30, 2014, a decrease from \$1.2 million in 2013.

Interest expense increased \$0.4 million, or 19%, for the three months ended September 30, 2014 as compared to 2013. The increase was due primarily to the allocated interest on \$200 million of 5.625% senior notes due 2043 issued in March 2014.

Economic Net Income. ENI was \$1.2 million for the three months ended September 30, 2014, a decrease of \$8.9 million from \$10.1 million for the three months ended September 30, 2013. The decrease in ENI for the three months ended September 30, 2014 as compared to 2013 was primarily driven by a decrease in investment income of \$5.4 million, a decrease in fee related earnings of \$3.6 million, and an increase in equity-based compensation of \$3.4 million. These decreases were partially offset by an increase in net performance fees of \$3.5 million.

Fee Related Earnings. Fee related earnings decreased \$3.6 million to \$13.6 million for the three months ended September 30, 2014 as compared to 2013. The decrease was primarily due to an increase in base compensation of \$8.6 million. This decrease was partially offset by a decrease in general, administrative and other indirect expenses of \$3.8 million.

Performance Fees. Performance fees of \$0.5 million and \$(7.8) million for the three months ended September 30, 2014 and 2013, respectively, are inclusive of performance fees reversed of approximately \$47.0 million and \$25.6 million, respectively. Performance fees for this segment by type of fund are as follows:

	Three Months Ended September 30,	
	2014	2013
	(Dollars in millions)	
Carry funds	\$34.7	\$(1.4)
Hedge funds	(42.2)	(7.8)
Structured credit funds	4.7	1.4
Business development companies	3.3	—
Performance fees	\$0.5	\$(7.8)

Performance fees for the three months ended September 30, 2014 were generated primarily by the carry funds, including \$15.2 million from our first energy mezzanine opportunities fund ("CEMOF"), \$12.7 million from CMP II and \$11.4 million from our third distressed debt fund ("CSP III"). Our carry funds in this segment appreciated 6% and 2% in the three months ended September 30, 2014 and 2013, respectively. Performance fees from our hedge funds substantially reversed in the three months ended September 30, 2014, including \$(16.8) million from the Claren Road Master Fund and \$(13.2) million from the Claren Road Opportunities Fund as well as \$(12.1) million from the ESG and Vermillion hedge funds. Performance fees for the three months ended September 30, 2013 from the hedge funds were also negative, including \$(14.8) million from the Claren Road Master Fund.

Net performance fees increased \$3.5 million to \$(8.2) million for the three months ended September 30, 2014 as compared to \$(11.7) million for the same period in 2013. Performance fee compensation expense as a percentage of performance fees is typically lower for hedge funds as compared to the carry funds. As a result, the accrual or reversal of performance fees from the hedge funds will have a lesser impact on performance fee compensation expense than comparable accruals or reversals of performance fees from the carry funds. For the three months ended September 30, 2014 and 2013, performance fee compensation expense was greater than performance fee revenue due to the significant performance fee reversals from the hedge funds during those periods (with lower relative performance fee compensation reversals) as compared to the performance fee revenue from the carry funds.

Investment Income (Loss). Investment loss was \$0.2 million for the three months ended September 30, 2014 as compared to investment income of \$5.2 million for the same period in 2013. During the three months ended September 30, 2014, realized investment income was \$4.1 million as compared to \$2.0 million for the three months ended September 30, 2013. The increase in realized investment income was due primarily to higher realized investment income related to CSP III. Unrealized investment loss was \$4.3 million for the three months ended September 30, 2014 as compared to unrealized investment income of \$3.2 million for the three months ended September 30, 2013. The unrealized loss that was incurred in 2014 was due primarily to the reclassification of unrealized gains to realized gains upon receiving proceeds from investment sales.

Distributable Earnings. Distributable earnings decreased \$1.3 million to \$22.9 million for the three months ended September 30, 2014 from \$24.2 million for the three months ended September 30, 2013. The decrease primarily related to a decrease in fee related earnings of \$3.6 million for the three months ended September 30, 2014 as compared to 2013. These decreases were partially offset by an increase in realized investment income of \$2.1 million and an increase in realized net performance fees of \$0.2 million for the three months ended September 30, 2014.

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Total fee revenues were \$193.5 million for the nine months ended September 30, 2014, a decrease of \$13.2 million from 2013. The decrease was due primarily to the absence in 2014 of approximately \$10.4 million of catch-up management fees earned from a subsequent closing of CSP III during 2013, approximately \$7.4 million in subordinated management fees recognized in 2013 from two CLOs that were liquidated in 2013, and lower AUM in the Vermillion hedge funds. Offsetting these decreases were increases in management fees from Claren Road and ESG hedge funds of \$14.6 million due to higher AUM, an increase in management fees from our business development companies of \$2.8 million, and an increase in management fees from the CLOs of approximately \$1.9 million. The weighted average management fee rate on our hedge funds decreased from 1.79% to 1.75% compared to

the prior year period due to higher AUM in the ESG hedge funds, which

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charge a lower rate, and decreases in AUM in the Vermillion hedge funds. The weighted average management fee rate on our carry funds decreased from 1.53% to 1.46% due to a step down in fee basis from commitments to invested capital on CMP II.

Interest and other income was \$4.7 million for the nine months ended September 30, 2014 as compared to \$3.3 million for the same period in 2013.

Total compensation and benefits was \$163.9 million and \$126.8 million for the nine months ended September 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$51.4 million and \$36.1 million for the nine months ended September 30, 2014 and 2013, respectively. With respect to Claren Road, ESG and Vermillion, where we only include our respective 55% economic interests in our Non-GAAP results, performance fee related compensation expense can vary as a percentage of performance fees based upon a variety of factors, including absolute and relative performance to comparable peers. As a result, the percentage of performance fee related compensation expense to performance fees is generally not a comparable measurement for Global Market Strategies from period to period.

Direct and indirect base compensation increased \$13.5 million for the nine months ended September 30, 2014 as compared to 2013, which primarily relates to incremental compensation costs related to increased headcount, promotions, and estimated bonuses.

Equity-based compensation was \$9.9 million for the nine months ended September 30, 2014, an increase of \$8.3 million from \$1.6 million for the nine months ended September 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses decreased \$8.2 million to \$38.6 million for the nine months ended September 30, 2014 as compared to 2013. The decrease is primarily due to higher external costs associated with fundraising activities for the business development companies and for carry funds during 2013 as compared to 2014. Depreciation and amortization expense was \$2.9 million for the nine months ended September 30, 2014, a decrease from \$3.5 million in 2013.

Interest expense increased \$1.5 million, or 26%, for the nine months ended September 30, 2014 as compared to 2013. The increase was due primarily to the allocated interest on \$400 million and \$200 million of 5.625% senior notes due 2043 issued in March 2013 and March 2014, respectively.

Economic Net Income. ENI was \$101.8 million for the nine months ended September 30, 2014, a decrease of \$59.4 million from \$161.2 million for the nine months ended September 30, 2013. The decrease in ENI for the nine months ended September 30, 2014 as compared to 2013 was primarily driven by a decrease in net performance fees of \$26.2 million, a decrease in fee related earnings of \$18.0 million, an increase in equity-based compensation of \$8.3 million, and a decrease in investment income of \$6.9 million.

Fee Related Earnings. Fee related earnings decreased \$18.0 million to \$46.9 million for the nine months ended September 30, 2014 as compared to 2013. The decrease was primarily due to an increase in base compensation of \$13.5 million and a decrease in fee revenues of \$13.2 million. These decreases were partially offset by a decrease in general, administrative and other indirect expenses of \$8.2 million.

Performance Fees. Performance fees of \$110.6 million and \$121.5 million for the nine months ended September 30, 2014 and 2013, respectively, are inclusive of performance fees reversed of \$7.8 million and approximately \$0.3 million, respectively. Performance fees for this segment by type of fund are as follows:

	Nine Months Ended September 30,	
	2014	2013
	(Dollars in millions)	
Carry funds	\$92.0	\$33.6
Hedge funds	(1.2	) 84.1
Structured credit funds	16.5	3.8
Business development companies	3.3	—
Performance fees	\$110.6	\$121.5

Performance fees for the nine months ended September 30, 2014 were generated primarily by our carry funds, including \$36.1 million from CEMOF, \$35.3 million from CSP III, and \$24.0 million from CMP II. Our carry funds in this segment appreciated 23% and 18% in the nine months ended September 30, 2014 and 2013, respectively. Substantially all accrued performance fees from our hedge funds were reversed during the nine months ended September 30, 2014. Performance fees for the nine months ended September 30, 2013 were generated primarily by the hedge funds, including \$32.5 million from the Claren Road Master Fund and \$26.6 million from the ESG Cross Border Equity Fund, as well as the carry funds, including \$30.2 million of performance fees from our second strategic partners fund ("CSP II").

Net performance fees decreased \$26.2 million to \$59.2 million for the nine months ended September 30, 2014 as compared to \$85.4 million for the same period in 2013.

Investment Income (Loss). Investment income was \$5.6 million for the nine months ended September 30, 2014 as compared to \$12.5 million for the same period in 2013. During the nine months ended September 30, 2014, realized investment income was \$6.8 million as compared to \$16.1 million for the nine months ended September 30, 2013. The decrease in realized investment income was due primarily to a realization of a debt investment in 2013 that resulted in a gain of approximately \$10.0 million. Unrealized investment loss was \$1.2 million for the nine months ended September 30, 2014 as compared to an unrealized investment loss of \$3.6 million for the nine months ended September 30, 2013. The unrealized loss that was incurred in 2014 was due primarily to the lower fair value of our collateralized loan obligation investments. The unrealized loss that was incurred in 2013 was due primarily to the reclassification of the unrealized gain on the debt investment to a realized gain.

Distributable Earnings. Distributable earnings decreased \$44.0 million to \$67.6 million for the nine months ended September 30, 2014 from \$111.6 million for the nine months ended September 30, 2013. The decrease related to a decrease in fee related earnings of \$18.0 million, a decrease in realized net performance fees of \$16.7 million, and a decrease in realized investment income of \$9.3 million for the nine months ended September 30, 2014 as compared to 2013.

Fee-earning AUM as of and for the Three and Nine Months Ended September 30, 2014 and 2013

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

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

	As of September 30,		
	2014	2013	
	(Dollars in millions)		
Global Market Strategies			
Components of Fee-earning AUM (1)			
Fee-earning AUM based on capital commitments	\$1,916	\$2,439	
Fee-earning AUM based on invested capital	723	651	
Fee-earning AUM based on collateral balances, at par	17,512	17,029	
Fee-earning AUM based on net asset value	14,136	13,479	
Fee-earning AUM based on other (2)	528	139	
Total Fee-earning AUM	\$34,815	\$33,737	
Weighted Average Management Fee Rates (3)			
All Funds, excluding CLOs	1.70	% 1.74	%

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

(2) Includes funds with fees based on gross asset value.

Represents the aggregate effective management fee rate for carry funds and hedge funds, weighted by each fund’s

(3) Fee-earning AUM, as of the end of each period presented. Management fees for CLOs are based on the total par amount of the assets (collateral) and principal balance of the notes in the fund and are not calculated as a percentage of equity and are therefore not included.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Dollars in millions)		(Dollars in millions)	
Global Market Strategies				
Fee-earning AUM Rollforward				
Balance, Beginning of Period	\$35,379	\$33,057	\$33,411	\$31,034
Inflows, including Fee-paying Commitments (1)	—	138	313	473
Outflows, including Distributions (2)	(51	) (49	) (472	) (416
Subscriptions, net of Redemptions (3)	269	423	803	1,179
Changes in CLO collateral balances (4)	195	(76	) 1,528	728
Market Appreciation/(Depreciation) (5)	(505	) (6	) (254	) 577
Foreign Exchange and other (6)	(472	) 250	(514	) 162
Balance, End of Period	\$34,815	\$33,737	\$34,815	\$33,737

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

Fee-earning AUM was \$34.8 billion at September 30, 2014, decrease of \$0.6 billion, or approximately 2%, compared to \$35.4 billion at June 30, 2014. This decrease was primarily a result of market depreciation on our hedge funds of \$0.5 billion and foreign exchange loss on our European structured credit funds of \$0.5 billion. Offsetting this decrease were net subscriptions to our hedge funds of \$0.3 billion and net increases in our CLO collateral balances of \$0.2 billion. Distributions from carry funds still in the investment period do not impact Fee-earning AUM as these funds are based on commitments and not invested capital.

Fee-earning AUM was \$34.8 billion at September 30, 2014, an increase of \$1.4 billion, or approximately 4%, compared to \$33.4 billion at December 31, 2013. This increase was primarily a result of increases in the aggregate par value of our CLO/structured product collateral balances of \$1.5 billion, including the launch of five new structured products, net subscriptions to our hedge funds of \$0.8 billion, and inflows of \$0.3 billion. Outflows of \$0.5 billion were primarily driven by distributions from funds outside the investment period.

Fee-earning AUM was \$34.8 billion at September 30, 2014, an increase of \$1.1 billion, or approximately 3%, compared to \$33.7 billion at September 30, 2013. This increase was driven by increases in the aggregate par value of our CLO/structured product collateral balances of \$0.9 billion, net subscriptions to our hedge funds of \$0.6 billion, and inflows of \$0.5 billion in our carry funds and business development companies. This increase was offset by outflows of \$0.5 billion, primarily driven by distributions from funds outside the investment period and \$0.4 billion of foreign exchange loss.

Fee-earning AUM was \$33.7 billion at September 30, 2013, an increase of \$0.6 billion, or 2%, compared to \$33.1 billion at June 30, 2013. This increase was primarily a result of net subscriptions to our hedge funds of \$0.4 billion, foreign exchange gains of \$0.1 billion and inflows of \$0.1 billion from limited partner commitments to CSP III. This increase was offset by decreases in the aggregate par value of our CLO collateral balances of \$0.1 billion.

Fee-earning AUM was \$33.7 billion at September 30, 2013, an increase of \$2.7 billion, or approximately 9%, compared to \$31.0 billion at December 31, 2012. This increase was primarily a result of net subscriptions to our hedge funds of \$1.2

billion, increases in the aggregate par value of our CLO collateral balances of \$0.7 billion and market appreciation of \$0.6 billion. Outflows of \$0.4 billion were primarily driven by distributions from funds outside the investment period.

Total AUM as of and for the Three and Nine Months Ended September 30, 2014.

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

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Available Capital (Dollars in millions)	Fair Value of Capital	Total AUM	Available Capital (Dollars in millions)	Fair Value of Capital	Total AUM
Global Market Strategies						
Balance, Beginning of Period	\$1,418	\$36,821	\$38,239	\$1,458	\$34,019	\$35,477
Commitments (1)	25	—	25	89	—	89
Capital Called, net (2)	(263	) 445	182	(464	) 908	444
Distributions (3)	272	(414	) (142	) 369	(719	) (350
Subscriptions, net of Redemptions (4)	—	319	319	—	981	981
Changes in CLO collateral balances (5)	—	1,245	1,245	—	2,703	2,703
Market Appreciation/(Depreciation) (6)	—	(387	) (387	) —	180	180
Foreign Exchange and other (7)	(4	) (553	) (557	) (4	) (596	) (600
Balance, End of Period (8)	\$1,448	\$37,476	\$38,924	\$1,448	\$37,476	\$38,924

(1) Represents capital raised by our carry funds, net of expired available capital.

Represents capital called by our carry funds and business development companies, net of fund fees and expenses.

(2) Equity invested amounts may vary from capital called due to timing differences between acquisition and capital call dates.

Represents distributions from our carry funds and business development companies, net of amounts recycled.

(3) Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.

(4) Represents the net result of subscriptions to and redemptions from our hedge funds and mutual fund.

(5) Represents the change in the aggregate collateral balance and principal cash and principal notes at par of the CLOs/structured products.

(6) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments and changes in the net asset value of our hedge funds and mutual fund.

(7) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

(8) Ending balance is comprised of approximately \$19.3 billion from our structured credit /other structured product funds, \$14.7 billion in our hedge funds, \$4.1 billion (including \$1.4 billion of Available Capital) in our carry funds, \$0.7 billion from our business development companies, and \$0.1 billion in our mutual fund.

Total AUM was \$38.9 billion at September 30, 2014, an increase of \$0.7 billion, or approximately 2%, compared to \$38.2 billion at June 30, 2014. This increase was primarily a result of increases in the aggregate par value of our CLO/structured product collateral balances of \$1.2 billion, including the launch of two new structured products, net subscriptions to our hedge funds of \$0.3 billion. These increases were offset by market depreciation on our hedge funds of \$0.4 billion and foreign exchange losses on our Europe structured credit funds of \$0.6 billion.

Total AUM was \$38.9 billion at September 30, 2014, an increase of \$3.4 billion, or approximately 10%, compared to \$35.5 billion at December 31, 2013. This increase was primarily a result of increases in the aggregate par value of our CLO/structured product collateral balances of \$2.7 billion, including the launch of five new structured products, net

subscriptions to our hedge funds of \$1.0 billion, and market appreciation of \$0.2 billion. These increases were partially offset by distributions of \$0.4 billion from our carry funds and business development companies and \$0.6 billion of foreign exchange losses on our Europe structured credit funds.

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Fund Performance Metrics

Fund performance information for certain of our Global Market Strategies funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund return information reflected in this discussion and analysis is not indicative of the performance of The Carlyle Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Carlyle Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table reflects the performance of certain carry funds in our Global Market Strategies business. These tables separately present carry funds that, as of September 30, 2014, had at least \$1.0 billion in capital commitments, cumulative equity invested or total equity value. Please see “— Our Family of Funds” for a legend of the fund acronyms listed below.

Fund	Inception Date(1)	Committed Capital	TOTAL INVESTMENTS as of September 30, 2014			Inception to September 30, 2014			
			Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(5)	Net IRR(6)		
Global Market Strategies (Reported in Local Currency, in Millions)									
CSP II	6/2007	\$1,352.3	\$1,352.3	\$2,448.7	1.8x	18	%	12	%
CEMOF I	12/2010	\$1,382.5	\$988.5	\$1,330.2	1.3x	33	%	19	%

The data presented herein that provides “inception to date” performance results of our segments relates to the period (1) following the formation of the first fund within each segment. For our Global Market Strategies segment, CSP II was formed in 2007 and CEMOF I was formed in 2010.

(2) Represents the original cost of investments net of investment level recallable proceeds which is adjusted to reflect recyclability of invested capital for the purpose of calculating the fund MOIC.

(3) Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.

(4) Multiple of invested capital (“MOIC”) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.

Gross Internal Rate of Return (“Gross IRR”) represents the annualized IRR for the period indicated on Limited (5) Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.

Net Internal Rate of Return (“Net IRR”) represents the annualized IRR for the period indicated on Limited Partner (6) invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.

Remaining Fair Value(1)	Unrealized MOIC(2)	Total MOIC(3)	% Invested(4)	In Accrued Carry/ (Clawback) (5)	LTM Realized Carry (6)	Catch Up Rate (7)	Fee Initiation Date(8)	Quarterly Since Inception(9)	Original Investment Period(10)
As of September 30, 2014									
Global Market Strategies (Reported in Local Currency, in Millions)									
CEMOF I	\$1,049.5	1.2x	1.3x	72 %	X	100 %	Dec-10	16	Dec-15
CSP II	\$479.9	0.9x	1.8x	100 %	X	80 %	Dec-07	28	Jun-11
All Other Funds (8)	\$791.2	1.2x	1.5x	n/m	n/m				
Coinvestment and Other (9)	\$365.1	1.1x	1.2x	n/m	n/m				
	\$2,685.6	1.1x	1.6x						

Total Global Market
Strategies

- (1) Net asset value of our carry funds. Reflects significant funds with remaining fair value of greater than \$100 million.
- (2) Unrealized multiple of invested capital (“MOIC”) represents remaining fair market value, before management fees, expenses and carried interest, divided by investment cost.
Total MOIC represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital. For certain funds, represents the original cost of investments net of investment level
- (3) recallable proceeds, which is adjusted to reflect recyclability of invested capital for the purpose of calculating the fund MOIC.

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- (4) Represents cumulative equity invested as of the reporting period divided by total commitments. Amount can be greater than 100% due to the re-investment of recallable distributions to fund investors.
- (5) Fund has accrued carry/(clawback) as of the reporting period.
- (6) Fund has realized carry in the last twelve months.
- (7) Represents the date of the first capital contribution for management fees.
- (8) Aggregate includes the following funds: CSP I, CSP III, CMP I, and CMP II. In Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate. Includes co-investments, prefund investments and certain other stand-alone investments arranged by us.
- (9) Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate.

The Claren Road Master Fund, the Claren Road Opportunities Fund, and the ESG Cross Border Equity Master Fund Ltd (our “reported hedge funds”), had AUM of approximately \$5.4 billion, \$3.0 billion, and \$3.6 billion, respectively, as of September 30, 2014. The asset-weighted hedge fund performance of our reported hedge funds was -2.1% during the quarter ended September 30, 2014, and subsequently declined further after markets closed on September 30, 2014. Refer to our Annual Report on Form 10-K for the year ended December 31, 2013 for the hedge fund performance tables that present annual and inception-to-date returns for each of our reported hedge funds as of such date.

Real Assets

For purposes of presenting results of operations for this segment, our earnings from our investments in NGP Management and the general partners of NGP funds are presented in the respective operating captions and, for the period beginning after September 30, 2013, the net income or loss from the consolidation of Urbplan allocable to the Partnership (after consideration of amounts allocable to non-controlling interests) is presented within investment income. The following table presents our results of operations for our Real Assets segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Segment Revenues				
Fund level fee revenues				
Fund management fees	\$55.7	\$47.3	\$165.6	\$140.7
Portfolio advisory fees, net	0.1	0.2	0.6	0.8
Transaction fees, net	0.6	0.2	0.7	2.9
Total fund level fee revenues	56.4	47.7	166.9	144.4
Performance fees				
Realized	28.4	12.5	38.3	44.1
Unrealized	9.5	12.1	69.9	28.2
Total performance fees	37.9	24.6	108.2	72.3
Investment income (loss)				
Realized	(13.2	) (4.3	) (3.0	) (16.6
Unrealized	6.7	(10.9	) (35.5	) (4.7
Total investment loss	(6.5	) (15.2	) (38.5	) (21.3
Interest and other income	1.4	0.4	3.3	1.3
Total revenues	89.2	57.5	239.9	196.7
Segment Expenses				
Compensation and benefits				
Direct base compensation	20.7	17.1	60.7	53.2
Indirect base compensation	9.9	7.9	35.9	21.8
Equity-based compensation	5.4	1.2	14.0	3.0
Performance fee related				
Realized	9.9	3.8	10.6	0.5
Unrealized	8.0	11.1	39.2	37.6
Total compensation and benefits	53.9	41.1	160.4	116.1
General, administrative, and other indirect expenses	21.1	12.8	52.3	39.7
Depreciation and amortization expense	0.8	1.0	2.6	3.3
Interest expense	2.6	2.2	7.3	6.0
Total expenses	78.4	57.1	222.6	165.1
Economic Net Income	\$10.8	\$0.4	\$17.3	\$31.6
(-) Net Performance Fees	20.0	9.7	58.4	34.2
(-) Investment Loss	(6.5	) (15.2	) (38.5	) (21.3
(+) Equity-based Compensation	5.4	1.2	14.0	3.0
(=) Fee Related Earnings	\$2.7	\$7.1	\$11.4	\$21.7
(+) Realized Net Performance Fees	18.5	8.7	27.7	43.6
(+) Realized Investment Loss	(13.2	) (4.3	) (3.0	) (16.6
(=) Distributable Earnings	\$8.0	\$11.5	\$36.1	\$48.7

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Total fee revenues were \$56.4 million for the three months ended September 30, 2014, an increase of \$8.7 million from the three months ended September 30, 2013. The increase in fund management fees primarily reflects \$11.9 million of incremental management fees earned in the third quarter of 2014 from our first international energy fund (“CIEP I”), which commenced its investment period in September 2013, including catch-up management fees earned in the third quarter of 2014 from subsequent closings of that fund of approximately \$3.8 million. Also contributing to the increase was \$4.9 million of incremental management fees from the commencement of management fees on our seventh U.S. real estate fund (“CRP VII”) in the second quarter of 2014. These increases were partially offset by declines in fund management fees from distributions from certain other U.S. and European real estate funds and NGP management fee funds outside of their investment periods. The total weighted average management fee increased to 1.26% at September 30, 2014 when compared to 1.19% at September 30, 2013 primarily due to commitments to CIEP I. Despite the step down from commitments to invested capital in one of our Legacy Energy funds (“Renew II”), from which we are entitled a 10% allocation of management fee related revenues, the weighted average management fee rate for funds in the investment period increased from 1.26% at September 30, 2013 to 1.46% at September 30, 2014 due to fundraising in CIEP I and CRP VII, from which we are entitled to 100% of management fee related revenues, and the onboarding of carry funds and NGP management funds from NGP Energy.

Interest and other income was \$1.4 million for the three months ended September 30, 2014, an increase from \$0.4 million for the same period in 2013.

Total compensation and benefits was \$53.9 million and \$41.1 million for the three months ended September 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$17.9 million and \$14.9 million for the three months ended September 30, 2014 and 2013, respectively. Performance fees earned from the Legacy Energy funds and from NGP funds are allocated solely to Carlyle and are not otherwise shared or allocated with our investment professionals. Accordingly, performance fee compensation as a percentage of performance fees is generally not a comparable measurement for Real Assets from period to period.

Direct and indirect base compensation was \$30.6 million for the three months ended September 30, 2014, an increase from the \$25.0 million of expense for the same period in 2013. The increase was due primarily to incremental compensation costs related to increased headcount, promotions, and estimated bonuses.

Equity-based compensation was \$5.4 million for the three months ended September 30, 2014, an increase of \$4.2 million from \$1.2 million for the three months ended September 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014.

General, administrative and other indirect expenses increased \$8.3 million to \$21.1 million for the three months ended September 30, 2014 as compared to 2013. The increase primarily relates to an increase in external costs associated with fundraising activities for CRP VII and CIEP I.

Depreciation and amortization expense was \$0.8 million for the three months ended September 30, 2014, a decline from \$1.0 million in 2013.

Interest expense increased \$0.4 million, or 18%, for the three months ended September 30, 2014 as compared to 2013. The increase was due primarily to the allocated interest on \$200 million of 5.625% senior notes due 2043 issued in March 2014.

Economic Net Income. ENI was \$10.8 million for the three months ended September 30, 2014, an increase of \$10.4 million from \$0.4 million for the same period in 2013. The increase in ENI for the three months ended September 30, 2014 as compared to the same period in 2013 was primarily driven by an increase in net performance fees of \$10.3 million and a decline in investment losses of \$8.7 million. These increases were partially offset by a decline in fee related earnings of \$4.4 million and an increase in equity-based compensation of \$4.2 million.

Fee Related Earnings. Fee related earnings declined \$4.4 million for the three months ended September 30, 2014 as compared to 2013 to \$2.7 million. The decline in fee related earnings is primarily attributable to an increase in general, administrative, and other indirect expenses of \$8.3 million and an increase in base compensation of \$5.6 million. These declines were partially offset by an increase in fee revenues of \$8.7 million.

Performance Fees. Performance fees of \$37.9 million and \$24.6 million for the three months ended September 30, 2014 and 2013, respectively, are inclusive of performance fees reversed of approximately \$14.4 million and \$14.3 million, respectively. Performance fees and appreciation in remaining value of assets for this segment by type of fund are as follows:

	Performance Fees		Appreciation	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Real Estate funds ⁽¹⁾	\$29.4	\$30.9	4%	3%
Natural Resources funds ⁽¹⁾	10.5	1.3	3%	9%
Legacy Energy funds ⁽¹⁾	(2.0	) (7.6) —%	—%
Total	\$37.9	\$24.6	2%	1%

(1) During the three months ended September 30, 2014, we created the "Legacy Energy funds" category to include our energy and renewable resources funds that we jointly advise with Riverstone Holdings L.L.C. We also created the "Natural Resources funds" category to include NGP carry funds, our infrastructure, power, and international energy funds. Our infrastructure and power funds were previously classified as part of our "Real Estate funds" category. Prior periods have been reclassified to conform with the current presentation.

Performance fees for the three months ended September 30, 2014 were primarily driven by performance fees related to CRP VI of \$25.2 million. Performance fees for the three months ended September 30, 2013 were primarily driven by performance fees related to CRP VI of \$23.7 million. Performance fees for our Natural Resources funds are higher for the three months ended September 30, 2014 even though appreciation was higher in 2013 as fewer funds were in carry for the three months ended September 30, 2013.

Net performance fees for the three months ended September 30, 2014 were \$20.0 million, representing an increase of \$10.3 million from \$9.7 million in net performance fees for the three months ended September 30, 2013.

Investment Income (Loss). Investment loss was \$6.5 million for the three months ended September 30, 2014 compared to investment loss of \$15.2 million for the same period in 2013. During the three months ended September 30, 2014, realized investment loss was \$13.2 million as compared to a realized investment loss of \$4.3 million for the three months ended September 30, 2013. The increase in the realized investment loss was due primarily to a realized loss associated with certain European real estate investments and Urbplan. Unrealized investment income was \$6.7 million for three months ended September 30, 2014 as compared to an unrealized loss of \$10.9 million for the three months ended September 30, 2013. The increase in unrealized investment income from 2013 to 2014 was due primarily to the reclassification of the unrealized loss on certain European real estate investments and Urbplan to a realized loss.

Distributable Earnings. Distributable earnings declined \$3.5 million to \$8.0 million for the three months ended September 30, 2014 from \$11.5 million for the same period in 2013. The decline was due to a \$8.9 million increase in realized investment loss and a decline in fee related earnings of \$4.4 million. These declines were partially offset by an increase in realized net performance fees of \$9.8 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013.

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Total fee revenues were \$166.9 million for the nine months ended September 30, 2014, an increase of \$22.5 million from September 30, 2013. The increase in fund management fees primarily reflects \$31.3 million of incremental management fees earned in 2014 from CIEP I, which commenced its investment period in September 2013, including catch-up management fees earned in 2014 from subsequent closings of that fund of approximately \$12.6 million. Also contributing to the increase was \$6.1 million of incremental management fees from the commencement of management fees on CRP VII in the second quarter of 2014. This increase was partially offset by declines in fund management fees from distributions from certain other U.S. and European real estate funds and NGP management fee funds outside of their investment periods. The total weighted average management fee increased to 1.26% at September 30, 2014 when compared to 1.19% at September 30, 2013 primarily due to commitments to CIEP I. Despite the step down from commitments to invested capital in Renew II, from which we are entitled a 10% allocation

of management fee related revenues, the weighted average management fee rate for funds in the investment period increased from 1.26% at September 30, 2013 to 1.46% at September 30, 2014 due to fundraising in CIEP I and CRP VII, from which we are entitled to 100% of management fee related revenues and the onboarding of carry funds and NGP management funds from NGP Energy.

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Interest and other income was \$3.3 million for the nine months ended September 30, 2014, an increase from \$1.3 million for the same period in 2013.

Total compensation and benefits was \$160.4 million and \$116.1 million for the nine months ended September 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$49.8 million and \$38.1 million for the nine months ended September 30, 2014 and 2013, respectively. Performance fees earned from the Legacy Energy funds and from NGP funds are allocated solely to Carlyle and are not otherwise shared or allocated with our investment professionals. Accordingly, performance fee compensation as a percentage of performance fees is generally not a comparable measurement for Real Assets from period to period.

Direct and indirect base compensation was \$96.6 million for the nine months ended September 30, 2014, an increase from the \$75.0 million of expense for the same period in 2013. The increase was due primarily to increased compensation associated with fundraising efforts for CRP VII and CIEP I, as well as incremental compensation costs related to increased headcount, promotions, and estimated bonuses.

Equity-based compensation was \$14.0 million for the nine months ended September 30, 2014, an increase of \$11.0 million from \$3.0 million for the nine months ended September 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses increased \$12.6 million to \$52.3 million for the nine months ended September 30, 2014 as compared to the same period of 2013. The increase primarily relates to an increase in external costs associated with fundraising activities for CRP VII and CIEP I.

Depreciation and amortization expense was \$2.6 million for the nine months ended September 30, 2014, a decline from \$3.3 million in 2013.

Interest expense increased \$1.3 million, or 22%, for the nine months ended September 30, 2014 as compared to 2013. The increase was due primarily to the allocated interest on \$400 million and \$200 million of 5.625% senior notes due 2043 issued in March 2013 and March 2014, respectively.

Economic Net Income. ENI was \$17.3 million for the nine months ended September 30, 2014, a decline of \$14.3 million from \$31.6 million for the same period in 2013. The decline in ENI for the nine months ended September 30, 2014 as compared to 2013 was primarily driven by an increase in investment loss of \$17.2 million, an increase in equity-based compensation of \$11.0 million, and a decline in fee related earnings of \$10.3 million. These declines were partially offset by an increase in net performance fees of \$24.2 million.

Fee Related Earnings. Fee related earnings declined \$10.3 million for the nine months ended September 30, 2014 as compared to 2013 to \$11.4 million. The decline in fee related earnings is primarily attributable to an increase in base compensation of \$21.6 million and an increase in general, administrative, and other indirect expenses of \$12.6 million, partially offset by an increase in fee revenues of \$22.5 million.

Performance Fees. Performance fees of \$108.2 million and \$72.3 million for the nine months ended September 30, 2014 and 2013, respectively, are inclusive of performance fees reversed of approximately \$9.3 million and \$16.8 million, respectively. Performance fees and appreciation in remaining value of assets for this segment by type of fund are as follows:

	Performance Fees		Appreciation	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Real Estate funds ⁽¹⁾	\$88.4	\$82.2	10%	4%
Natural Resources funds ⁽¹⁾	11.7	1.5	14%	11%
Legacy Energy funds ⁽¹⁾	8.1	(11.4)	) 4%	1%
Total	\$108.2	\$72.3	7%	2%

(1) During the three months ended September 30, 2014, we created the "Legacy Energy funds" category to include our energy and renewable resources funds that we jointly advise with Riverstone Holdings L.L.C. We also created the "Natural Resources funds" category to include NGP carry funds, our infrastructure, power, and international energy funds. Our infrastructure and power funds were previously classified as part of our "Real Estate funds" category. Prior periods have been reclassified to conform with the current presentation.

Performance fees for the nine months ended September 30, 2014 were primarily driven by performance fees related to CRP VI of \$70.4 million. Performance fees for the nine months ended September 30, 2013 were primarily driven by performance fees related to CRP VI of \$60.0 million. Even though appreciation for the nine months ended September 30, 2014 exceeded the appreciation for the same period of 2013, performance fees from our real estate funds were largely flat. CRP VI was a slightly greater percentage of the total and funds not in carry impacted the total appreciation. Even though appreciation for the nine months ended September 30, 2014 exceeded the appreciation for the nine months ended September 30, 2013, performance fees from our real estate funds were relatively flat. CRP VI was a slightly greater percentage of the total and funds not in carry impacted the total appreciation.

Net performance fees for the nine months ended September 30, 2014 were \$58.4 million, representing an increase of \$24.2 million from \$34.2 million in net performance fees for the nine months ended September 30, 2013.

Investment Income (Loss). Investment loss was \$38.5 million for the nine months ended September 30, 2014 compared to \$21.3 million for the same period in 2013. The increase in investment loss from 2013 to 2014 was due primarily to net investment losses on certain European real estate investments of \$18.4 million in 2014 versus \$17.6 million in 2013, as well as investment losses related to Urbplan in 2014 of \$24.4 million and \$6.4 million in 2013.

Distributable Earnings. Distributable earnings declined \$12.6 million to \$36.1 million for the nine months ended September 30, 2014 from \$48.7 million for the same period in 2013. The decline was due to a \$15.9 million decline in realized net performance fees and a \$10.3 million decline in fee related earnings, partially offset by a decline in realized investment loss of \$13.6 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013.

Fee-earning AUM as of and for the Three and Nine Months Ended September 30, 2014 and 2013

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

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

	As of September 30, 2014	2013	
Real Assets			
Components of Fee-earning AUM (1)			
Fee-earning AUM based on capital commitments	\$7,301	\$9,520	
Fee-earning AUM based on invested capital (2)	20,175	18,501	
Fee-earning AUM based on lower of cost or fair value and other (3)	698	509	
Total Fee-earning AUM (4)	\$28,174	\$28,530	
Weighted Average Management Fee Rates (5)			
All Funds	1.26	% 1.19	%
Funds in Investment Period	1.46	% 1.26	%

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

(2) Includes amounts committed to or reserved for investments for certain real estate funds.

(3) Includes certain funds that are calculated on gross asset value.

(4) Energy I, Energy II, Energy III, Energy IV, Renew I, and Renew II (collectively, the "Legacy Energy Funds"), are managed with Riverstone Holdings LLC and its affiliates. Affiliates of both Carlyle and Riverstone act as investment advisers to each of the Legacy Energy Funds. With the exception of Energy IV and Renew II, where Carlyle has a minority representation on the funds' management committees, management of each of the Legacy

Energy Funds is vested in committees with equal representation by Carlyle and Riverstone, and the consent of representatives of both Carlyle and Riverstone is required for investment decisions. As of September 30, 2014, the Legacy Energy Funds had, in the aggregate, approximately \$11.6 billion in AUM and \$7.5 billion in Fee-earning AUM. NGP VII, NGP VIII, NGP

IX, or in the case of NGP M&R, NGP ETP I, NGP ETP II, and NGPC, certain affiliated entities (collectively, the "NGP management fee funds") and NGP X, NGP Agribusiness and NGP XI (collectively, the "carry funds"), are managed by NGP Energy Capital Management. As of September 30, 2014, the NGP management fee funds and carry funds had, in the aggregate, approximately \$17.2 billion in AUM and \$8.9 billion in Fee-earning AUM.

Represents the aggregate effective management fee rate of each fund in the segment, weighted by each fund's Fee-earning AUM, as of the end of each period presented. Calculation reflects Carlyle's 10% and 47.5% interest in management fees earned by the Legacy Energy funds and NGP management fee and carry funds, respectively. Accounts based on gross asset base generally have an effective management fee rate of 0.5% or less.

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

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	(Dollars in millions)		(Dollars in millions)	
Real Assets				
Fee-earning AUM Rollforward				
Balance, Beginning of Period	\$ 27,871	\$ 28,685	\$ 28,438	\$ 29,305
Inflows, including Fee-paying Commitments (1)	855	680	3,923	1,678
Outflows, including Distributions (2)	(352)	(963)	(3,991)	(2,446)
Market Appreciation/(Depreciation) (3)	—	—	(12)	—
Foreign Exchange and other (4)	(200)	128	(184)	(7)
Balance, End of Period	\$ 28,174	\$ 28,530	\$ 28,174	\$ 28,530

(1) Inflows represent limited partner capital raised and capital invested by funds outside the investment period.

(2) Outflows represent distributions from funds outside the investment period and changes in fee basis for our carry funds where the investment period has expired.

(3) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments in our carry fund based on the lower of cost or fair value.

(4) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Fee-earning AUM was \$28.2 billion at September 30, 2014, an increase of \$0.3 billion, or approximately 1%, compared to \$27.9 billion at June 30, 2014. This increase was driven by inflows of \$0.9 billion, primarily related to new commitments to CRP VII, CIEP I, and our second power fund ("CPP II"). Commitments to NGP XI will be based on invested equity until January 1, 2016, after which they will be based on commitments until the first investment realization. The increase was offset by outflows of \$0.4 billion, primarily due to distribution activity in our funds outside the original investment period. Investment and distribution activity by funds still in the investment period do not impact Fee-earning AUM as these funds are based on commitments and not invested capital. Changes in fair value have no impact on Fee-earning AUM for Real Assets as substantially all of the funds generate management fees based on either commitments or invested capital at cost, neither of which is impacted by fair value movements.

Fee-earning AUM was \$28.2 billion at September 30, 2014, a decrease of \$0.3 billion or approximately 1% compared to \$28.4 billion at December 31, 2013. Outflows of \$4.0 billion were primarily related to distributions from our fully invested real estate funds, Legacy and NGP management fee funds and related co-investments, in addition to the step down in fees from commitments to invested equity in Renew II and CRP VI. Offsetting this decrease were inflows of \$3.9 billion, principally a result of commitments to CRP VII, CIEP I, and CPP II. Commitments to NGP XI will be based on invested equity until January 1, 2016, after which they will be based on commitments until the first investment realization.

Fee-earning AUM was \$28.2 billion at September 30, 2014, a decrease of \$0.3 billion, or approximately 1%, compared to \$28.5 billion at September 30, 2013. This decrease was primarily related to the outflows of \$4.6 billion in our NGP management fee funds, Legacy Energy funds, and real estate funds, offset by \$4.4 billion of new

commitments, primarily in CRP VII, CIEP I, CPP II, and NGP XI. Commitments to NGP XI will be based on invested equity until January 1, 2016, after which they will be based on commitments until the first investment realization.

Fee-earning AUM was \$28.5 billion at September 30, 2013, a decrease of \$0.2 billion, or less than 1%, compared to \$28.7 billion at June 30, 2013. This decrease was driven by outflows of \$1.0 billion, primarily a result of distributions from our

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fully invested real estate funds, Legacy and NGP management fee funds and related co-investments. This decrease is offset by inflows of \$0.7 billion, primarily related to investment activity in our real estate funds outside of the investment period.

Fee-earning AUM was \$28.5 billion at September 30, 2013, a decrease of \$0.8 billion compared to \$29.3 billion at December 31, 2012. Outflows of \$2.4 billion were primarily related to distributions from our fully invested real estate funds, Legacy and NGP Energy funds and related co-investments. Offsetting this decrease were inflows of \$1.7 billion, principally a result of commitments to CIEP I and investment activity in our real estate funds outside of the investment period.

Total AUM as of and for the Three and Nine Months Ended September 30, 2014

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

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Available Capital (Dollars in millions)	Fair Value of Capital	Total AUM	Available Capital (Dollars in millions)	Fair Value of Capital	Total AUM
Real Assets						
Balance, Beginning of Period	\$ 12,310	\$ 30,986	\$ 43,296	\$ 8,754	\$ 29,910	\$ 38,664
Commitments (1)	3,035	—	3,035	7,377	—	7,377
Capital Called, net (2)	(981	) 973	(8	) (2,575	) 2,969	394
Distributions (3)	221	(1,049	) (828	) 1,032	(6,226	) (5,194
Market						
Appreciation/(Depreciation) (4)	—	531	531	—	4,756	4,756
Foreign Exchange and other (5)	(44	) (202	) (246	) (47	) (170	) (217
Balance, End of Period	\$ 14,541	\$ 31,239	\$ 45,780	\$ 14,541	\$ 31,239	\$ 45,780

(1) Represents capital raised by our carry funds and NGP management fee funds, net of expired available capital.

(2) Represents capital called by our carry funds and NGP management fee funds, net of fund fees and expenses. Equity invested amounts may vary from capital called due to timing differences between acquisition and capital call dates.

Represents distributions from our carry funds and NGP management fee funds, net of amounts recycled.

(3) Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.

(4) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments.

Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated (5) funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Total AUM was \$45.8 billion at September 30, 2014, an increase of \$2.5 billion, or 6%, compared to \$43.3 billion at June 30, 2014. This increase was driven by \$3.0 billion of new commitments raised in NGP XI, CRP VII, CIEP I, and CPP II. Our portfolio experienced a 2% increase in value over the period, due to a 4% increase in our real estate funds and a 3% increase in our natural resources funds. Market appreciation of \$0.5 billion was largely attributable to CRP VI and our NGP management fee funds. The increase was partially offset by distributions of \$0.8 billion, primarily in CRP VI and our Legacy Energy funds and \$0.2 billion of foreign exchange loss.

Total AUM was \$45.8 billion at September 30, 2014, an increase of \$7.1 billion, or over 18%, compared to \$38.7 billion at December 31, 2013. This increase was driven by commitments raised of \$7.4 billion in NGP XI, CRP VII, CIEP I, and CPP II and \$4.8 billion of market appreciation. Our portfolio experienced a 7% increase in value over the period, due to a 10% increase in our real estate funds, 14% increase in our natural resources funds, and a 4% increase in our Legacy Energy funds. The increase was offset by distributions of \$5.2 billion, primarily in the several of our real estate carry funds, the NGP management fee funds and Legacy Energy funds.

Fund Performance Metrics

Fund performance information for our carry funds that have at least \$1.0 billion in capital commitments, cumulative equity invested or total value as of September 30, 2014, which we refer to as our “significant funds,” is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund return information reflected in this discussion and analysis is not indicative of the performance of The Carlyle Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Carlyle Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns. The following tables reflect the performance of our significant funds in our Real Assets business. Please see “— Our Family of Funds” for a legend of the fund acronyms listed below.

Fund Inception Date(1)	Committed Capital	TOTAL INVESTMENTS as of September 30, 2014						REALIZED/PARTIALLY REALIZED INVESTMENTS(5) as of September 30, 2014					
		Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(7)	Net IRR(8)	Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(7)			
Real Assets												(Reported in Local Currency, in Millions)	
Fully Invested Funds(6)													
CRP III	11/2000	\$564.1	\$522.5	\$1,399.1	2.7x	44	% 29	% \$522.5	\$1,399.1	2.7x	44	%	
CRP IV	12/2004	\$950.0	\$1,198.6	\$1,365.9	1.1x	3	% (1)	% \$465.2	\$515.4	1.1x	9	%	
CRP V	11/2006	\$3,000.0	\$3,290.4	\$4,725.1	1.4x	11	% 7	% \$2,652.4	\$3,896.1	1.5x	13	%	
CRP VI	9/2010	\$2,340.0	\$1,741.5	\$2,628.5	1.5x	34	% 22	% \$395.0	\$771.7	2.0x	43	%	
CEREP I	3/2002	€426.6	€517.0	€691.5	1.3x	12	% 7	% €503.2	€665.4	1.3x	13	%	
CEREP II	4/2005	€762.7	€833.8	€128.1	0.2x	n/a	n/a	€483.2	€127.7	0.3x	n/a		
CEREP III	5/2007	€2,229.5	€1,968.2	€1,919.9	1.0x	(1)	% (5)	% €567.8	€706.7	1.2x	6	%	
CIP	9/2006	\$1,143.7	\$1,011.7	\$1,216.9	1.2x	5	% 2	% \$180.7	\$—	0.0x	n/a		
Energy II	7/2002	\$1,100.0	\$1,334.8	\$3,388.7	2.5x	81	% 55	% \$827.4	\$3,202.2	3.9x	105	%	
Energy III	10/2005	\$3,800.0	\$3,559.9	\$6,169.8	1.7x	12	% 9	% \$1,545.4	\$4,158.7	2.7x	26	%	
Energy IV	12/2007	\$5,979.1	\$5,745.6	\$9,345.6	1.6x	19	% 13	% \$2,338.8	\$4,637.5	2.0x	29	%	
Renew II	3/2008	\$3,417.5	\$2,801.7	\$4,043.8	1.4x	12	% 8	% \$643.1	\$842.7	1.3x	13	%	
All Other Funds(9)	Various		\$2,724.8	\$2,941.3	1.1x	3	% (2)	% \$1,923.4	\$2,293.7	1.2x	9	%	
Coinvestments and Other(10)	Various		\$5,210.0	\$8,341.8	1.6x	18	% 14	% \$2,084.2	\$4,483.0	2.2x	28	%	
Total Fully Invested Funds			\$33,333.4	\$49,026.4	1.5x	14	% 8	% \$15,541.0	\$28,094.3	1.8x	24	%	
Funds in the Investment Period(6)													
CRP VII(12)	3/2014	\$1,488.1	n/m	n/m	n/m	n/m	n/m						
CIEP I(12)	9/2013	\$1,782.9	\$187.3	\$146.5	0.8x	n/m	n/m						
NGP X(14)	1/2012	\$3,586.0	\$2,380.1	\$3,279.4	1.4x	28%	19	%					
All Other Funds(11)	Various		\$8.9	\$8.9	1.0x	n/m	n/m						
Total Funds in the Investment Period			\$2,576.3	\$3,432.7	1.3x	27	% 15	% \$171.7	\$481.5	2.8x	145%		
TOTAL Real Assets(13)			\$35,909.7	\$52,459.2	1.5x	14	% 8	% \$15,712.7	\$28,575.8	1.8x	25	%	

(1)

The data presented herein that provides “inception to date” performance results of our segments relates to the period following the formation of the first fund within each segment. For our Real Assets segment our first fund was formed in 1997.

- (2) Represents the original cost of all capital called for investments since inception of the fund.
- (3) Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.
- (4) Multiple of invested capital (“MOIC”) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.

An investment is considered realized when the investment fund has completely exited, and ceases to own an interest in, the investment. An investment is considered partially realized when the total amount of proceeds received in respect of such investment, including dividends, interest or other distributions and/or return of capital, represents at least 85% of invested capital and such investment is not yet fully realized. Because part of our value

- (5) creation strategy involves pursuing best exit alternatives, we believe information regarding Realized/Partially Realized MOIC and Gross IRR, when considered together with the other investment performance metrics presented, provides investors with meaningful information regarding our investment performance by removing the impact of investments where significant realization activity has not yet occurred. Realized/Partially Realized MOIC and Gross IRR have limitations as measures of

investment performance, and should not be considered in isolation. Such limitations include the fact that these measures do not include the performance of earlier stage and other investments that do not satisfy the criteria provided above. The exclusion of such investments will have a positive impact on Realized/Partially Realized MOIC and Gross IRR in instances when the MOIC and Gross IRR in respect of such investments are less than the aggregate MOIC and Gross IRR. Our measurements of Realized/Partially Realized MOIC and Gross IRR may not be comparable to those of other companies that use similarly titled measures. We do not present Realized/Partially Realized performance information separately for funds that are still in the investment period because of the relatively insignificant level of realizations for funds of this type. However, to the extent such funds have had realizations, they are included in the Realized/Partially Realized performance information presented for Total Real Assets.

Fully Invested funds are past the expiration date of the investment period as defined in the respective limited (6) partnership agreement. In instances where a successor fund has had its first capital call, the predecessor fund is categorized as fully invested.

Gross Internal Rate of Return (“Gross IRR”) represents the annualized IRR for the period indicated on Limited (7) Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.

Net Internal Rate of Return (“Net IRR”) represents the annualized IRR for the period indicated on Limited Partner (8) invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.

(9) Aggregate includes the following funds: CRP I, CRP II, CAREP I, CAREP II, CRCP I, CPOCP, Energy I and Renew I.

(10) Includes co-investments, prefund investments and certain other stand-alone investments arranged by us.

(11) Aggregate includes the following funds: CPP II and NGP Agribusiness.

(12) Returns are not considered meaningful, as the investment period commenced in September 2013 for CIEP I and March 2014 for CRP VII.

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

(14) NGP X was previously reported as an NGP management fee fund. As of September 30, 2014, it is reported as a carry fund due to Carlyle's exercise on July 1, 2014 of its option to acquire general partner interests in NGP X which entitles Carlyle to an allocation of income equal to 40% of the carried interest received by NGP X's general partner.

	Remaining Fair Value(1)	Unrealized MOIC(2)	Total MOIC(3)	% Invested(4)	In Accrued Carry/(Clawback)(5)	LTM Realized Carry(6)	Catch up Rate	Fee Initiation Date(7)	Quarter Since Investment Fee Initiation(8)	Original Investment Period End Date
As of September 30, 2014										
Real Assets (Reported in Local Currency, in Millions)										
Energy IV	\$4,792.5	1.4x	1.6x	96 %	X	X	80 %	Feb-08	27	Dec-13
NGP X	\$2,895.1	1.4x	1.4x	66 %	X		80 %	Oct-12	8	May-17
Renew II	\$2,413.1	1.3x	1.4x	82 %	X		80 %	Nov-08	24	May-14
CRP VI	\$1,778.9	1.3x	1.5x	74 %	X	X	50 %	Dec-11	12	Mar-16
Energy III	\$1,761.8	0.9x	1.7x	94 %	X		80 %	Nov-05	36	Oct-11
CEREP III	€1,388.3	0.9x	1.0x	88 %			67 %	Oct-07	28	May-11
CRP V	\$1,048.2	1.4x	1.4x	110 %			50 %	Nov-06	32	Nov-11
CIP	\$979.2	1.5x	1.2x	88 %			80 %	Oct-06	32	Sep-12
CRP IV	\$829.0	1.1x	1.1x	126 %	(X)		50 %	Dec-05	36	Dec-09
Energy II	\$315.0	0.5x	2.5x	121 %	(X)		80 %	Jan-03	47	Jul-08
CRP III	\$250.8	40.7x	2.7x	93 %	X	X	50 %	Dec-01	52	May-05
CIEP I	\$154.0	0.9x	0.8x	9 %			80 %	Oct-13	4	Sep-19
All Other Funds(8)	\$363.1	0.6x	0.9x	n/m		n/m				

Coinvestment and Other(9)	\$3,192.1	1.0x	1.6x	n/m	n/m
Total Real Assets(10)	\$22,526.2	1.1x	1.5x		

- (1) Net asset value of our carry funds. Reflects significant funds with remaining fair value of greater than \$100 million.
- (2) Unrealized multiple of invested capital (“MOIC”) represents remaining fair market value, before management fees, expenses and carried interest, divided by investment cost.
- (3) Total MOIC represents total fair value before management fees, expenses, and carried interest, divided by cumulative invested capital.
- (4) Represents cumulative equity invested as of the reporting period divided by total commitments. Amount can be greater than 100% due to the re-investment of recallable distributions to fund investors.
- (5) Fund has accrued carry/(clawback) as of the reporting period.
- (6) Fund has realized carry in the last twelve months.
- (7) Represents the date of the first capital contribution for management fees.

Aggregate includes the following funds: CRP I, CRP II, CRP VII, CRCP I, CEREP I, CEREP II, CAREP I, (8) CAREP II, CPOCP I, NGP Agribusiness, Energy I and Renew I. In Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate.

Includes co-investments, prefund investments and certain other stand-alone investments arranged by us. In (9) Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate.

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

Solutions

Through August 1, 2013, our Solutions segment results reflected our 60% ownership interest in AlInvest's operations, while our consolidated financial statements reflected 100% of AlInvest's operations and a non-controlling interest of 40%. As a result of our acquisition of the remaining 40% equity interest in AlInvest on August 1, 2013, our segment results prospectively from that date reflect our 100% ownership interest in AlInvest. Also, as a result of our acquisitions of Metropolitan on November 1, 2013 and DGAM on February 3, 2014, our segment results include the results of operations of Metropolitan and DGAM since their acquisition dates.

The following table presents our results of operations for our Solutions segment:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013	2014	2013	2014
	(Dollars in millions)			
Segment Revenues				
Fund level fee revenues				
Fund management fees	\$46.0	\$37.2	\$137.4	\$76.6
Portfolio advisory fees, net	—	—	—	—
Transaction fees, net	—	—	—	—
Total fund level fee revenues	46.0	37.2	137.4	76.6
Performance fees				
Realized	10.6	5.7	23.5	9.9
Unrealized	(50.9)	) 38.9	150.9	81.5
Total performance fees	(40.3)	) 44.6	174.4	91.4
Investment income (loss)				
Realized	—	—	—	—
Unrealized	—	0.1	0.3	0.1
Total investment income (loss)	—	0.1	0.3	0.1
Interest and other income	0.5	—	1.0	0.2
Total revenues	6.2	81.9	313.1	168.3
Segment Expenses				
Compensation and benefits				
Direct base compensation	20.7	16.8	62.4	34.1
Indirect base compensation	4.3	1.1	12.1	3.7
Equity-based compensation	1.5	0.1	3.3	0.3
Performance fee related				
Realized	7.2	2.6	14.0	5.0
Unrealized	(36.2)	) 29.7	121.9	61.9
Total compensation and benefits	(2.5)	) 50.3	213.7	105.0
General, administrative, and other indirect expenses	11.5	5.7	31.3	13.5
Depreciation and amortization expense	0.9	0.7	2.8	1.7
Interest expense	1.5	0.6	4.1	1.7
Total expenses	11.4	57.3	251.9	121.9
Economic Net Income (Loss)	\$(5.2)	) \$24.6	\$61.2	\$46.4
(-) Net Performance Fees	(11.3)	) 12.3	38.5	24.5
(-) Investment Income (Loss)	—	0.1	0.3	0.1
(+) Equity-based Compensation	1.5	0.1	3.3	0.3
(=) Fee Related Earnings	\$7.6	\$12.3	\$25.7	\$22.1
(+) Realized Net Performance Fees	3.4	3.1	9.5	4.9
(+) Realized Investment Income (Loss)	—	—	—	—
(=) Distributable Earnings	\$11.0	\$15.4	\$35.2	\$27.0

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Total fee revenues were \$46.0 million and \$37.2 million for the three months ended September 30, 2014 and 2013, respectively. The increase is due primarily to the incremental \$4.8 million of management fees from our acquisition of Metropolitan and the incremental \$4.8 million of management fees from our acquisition of DGAM.

Total compensation and benefits were \$(2.5) million and \$50.3 million for the three months ended September 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$(29.0) million and \$32.3 million, or 72% of performance fees for the three months ended September 30, 2014 and 2013.

Direct and indirect base compensation expense was \$25.0 million and \$17.9 million for the three months ended September 30, 2014 and 2013, respectively. After considering the impact of the increase in compensation expense from our acquisition of Metropolitan of \$3.2 million and our acquisition of DGAM of \$3.0 million, the increase was also due to incremental compensation costs related to investments in additional investor relations personnel for the Solutions business lines.

Equity-based compensation was \$1.5 million and \$0.1 million for the three months ended September 30, 2014 and 2013, respectively. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014.

General, administrative and other indirect expenses were \$11.5 million and \$5.7 million for the three months ended September 30, 2014 and 2013, respectively. The increase was due primarily to our acquisition of Metropolitan of \$1.6 million and our acquisition of DGAM of \$1.1 million.

Depreciation and amortization expense was \$0.9 million and \$0.7 million for the three months ended September 30, 2014 and 2013, respectively.

Interest expense was \$1.5 million and \$0.6 million for the three months ended September 30, 2014 and 2013, respectively. The increase was due primarily to the allocated interest on \$200 million of 5.625% senior notes due 2043 issued in March 2014.

Economic Net Income (Loss). Economic net income was \$(5.2) million and \$24.6 million for the three months ended September 30, 2014 and 2013, respectively. The decrease in ENI for the three months ended September 30, 2014 as compared to 2013 was primarily driven by a decrease in net performance fees of \$23.6 million, a decrease in fee related earnings of \$4.7 million, and an increase in equity-based compensation expense of \$1.4 million.

Fee Related Earnings. Fee related earnings were \$7.6 million and \$12.3 million for the three months ended September 30, 2014 and 2013, respectively. The decrease in fee related earnings was primarily due to higher direct and indirect compensation costs of \$7.1 million and the \$5.8 million increase in general, administrative, and other indirect expenses, partially offset by the net increase in fee revenues of \$8.8 million for the three months ended September 30, 2014 as compared to 2013.

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

Performance fees were \$(40.3) million and \$44.6 million for the three months ended September 30, 2014 and 2013, respectively, are inclusive of performance fee reversed of approximately \$75.8 million and \$0 million, respectively. Performance fees for this segment by type of fund are as follows:

	Three Months Ended September 30,	
	2014	2013
	(Dollars in millions)	
Private Equity fund of funds	\$(41.0	) \$44.6
Hedge fund of funds	0.7	—
Performance fees	\$(40.3	) \$44.6

Performance fees during the three months ended September 30, 2014 primarily reflect a reversal of performance fees related to Main Fund III – Secondary Investments (2006) and Main Fund III – Co-Investments (2006), two of the private equity fund of funds vehicles managed by AlpInvest, that fell below their performance threshold and therefore reversed the previously accrued performance fees. This resulted in a decrease in performance fees attributable to these vehicles of \$75.8 million. Overall, the AlpInvest private equity fund of funds vehicles appreciated approximately 10% during the three months ended September 30, 2014.

Net performance fees for the three months ended September 30, 2014 were \$(11.3) million, representing a decrease of \$(23.6) million from \$12.3 million in net performance fees for the three months ended September 30, 2013.

Distributable Earnings. Distributable earnings were \$11.0 million and \$15.4 million for the three months ended September 30, 2014 and 2013, respectively. The decrease in distributable earnings was due primarily to the decrease in fee related earnings of \$4.7 million.

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Total fee revenues were \$137.4 million and \$76.6 million for the nine months ended September 30, 2014 and 2013, respectively. After considering the incremental \$14.8 million of management fees from our acquisition of Metropolitan, the incremental \$12.9 million of management fees from our acquisition of DGAM, and the increase in management fees from our acquisition of the remaining 40% equity interest in AlpInvest, the remaining increase in management fees was due to an increase in Fee-earning AUM at AlpInvest from 2013 to 2014.

Total compensation and benefits were \$213.7 million and \$105.0 million for the nine months ended September 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$135.9 million and \$66.9 million or 78% and 73% of performance fees for the nine months ended September 30, 2014 and 2013, respectively.

Direct and indirect base compensation expense was \$74.5 million and \$37.8 million for the nine months ended September 30, 2014 and 2013, respectively. After considering the increase in compensation expense from our acquisition of Metropolitan of \$9.3 million, our acquisition of DGAM of \$7.9 million, and the acquisition of the remaining 40% equity interest in AlpInvest, the increase was also due to incremental compensation costs related to investments in additional investor relations personnel for the Solutions business lines.

Equity-based compensation was \$3.3 million and \$0.3 million for the nine months ended September 30, 2014 and 2013, respectively. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses were \$31.3 million and \$13.5 million for the nine months ended September 30, 2014 and 2013, respectively. The increase was due primarily to the increase in general, administrative and other indirect expenses from our acquisition of Metropolitan of \$4.5 million, our acquisition of DGAM of \$3.3 million, and the acquisition of the remaining 40% equity interest in AlpInvest.

Depreciation and amortization expense was \$2.8 million and \$1.7 million for the nine months ended September 30, 2014 and 2013, respectively.

Interest expense was \$4.1 million and \$1.7 million for the nine months ended September 30, 2014 and 2013, respectively. The increase was due primarily to the allocated interest on \$400 million and \$200 million of 5.625% senior notes due 2043 issued in March 2013 and March 2014, respectively.

Economic Net Income. Economic net income was \$61.2 million and \$46.4 million for the nine months ended September 30, 2014 and 2013, respectively. The increase in ENI for the nine months ended September 30, 2014 as compared to 2013 was primarily driven by an increase in net performance fees of \$14.0 million and an increase in fee related earnings of \$3.6 million, partially offset by an increase in equity-based compensation expense of \$3.0 million. **Fee Related Earnings.** Fee related earnings were \$25.7 million and \$22.1 million for the nine months ended September 30, 2014 and 2013, respectively. The increase in fee related earnings was due to our acquisitions of Metropolitan, DGAM, and the remaining 40% equity interest in AlpInvest. These increases were partially offset by incremental compensation costs related to investments in personnel for the Solutions infrastructure in order to facilitate integration of the various business lines.

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

Performance fees were \$174.4 million and \$91.4 million for the nine months ended September 30, 2014 and 2013, respectively. There were no reversals of performance fees for the nine months ended September 30, 2014 and 2013.

Performance fees for this segment by type of fund are as follows:

	Nine Months Ended September 30,	
	2014	2013
	(Dollars in millions)	
Private Equity fund of funds	\$168.4	\$91.4
Hedge fund of funds	6.0	—
Performance fees	\$174.4	\$91.4

The \$174.4 million in performance fees for the nine months ended September 30, 2014 was driven primarily by performance fees for Co-Investment Fund & Secondaries Fund (2009-2010) of \$25.5 million, Co-Investment Fund & Secondaries Fund (2012-2013) of \$20.7 million, Partnership Fund (2007) of \$12.1 million, and Partnership Fund (2009) of \$9.2 million. Performance fees for the nine months ended September 30, 2014 and 2013 were primarily due to the overall appreciation in the investments in the AlpInvest fund of funds vehicles of approximately 24% and 13% for the nine months ended September 30, 2014 and 2013, respectively.

Net performance fees for the nine months ended September 30, 2014 were \$38.5 million, representing an increase of \$14.0 million from \$24.5 million in net performance fees for the nine months ended September 30, 2013.

Distributable Earnings. Distributable earnings were \$35.2 million and \$27.0 million for the nine months ended September 30, 2014 and 2013, respectively. The increase in distributable earnings was due to the increase in realized net performance fees of \$4.6 million and the increase in fee related earnings of \$3.6 million.

Fee-earning AUM as of and for the Three and Nine Ended September 30, 2014 and 2013

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

	As of September 30,	
	2014	2013
	(Dollars in millions)	
Solutions		
Components of Fee-earning AUM (1)		
Fee-earning AUM based on capital commitments	\$9,726	\$11,290
Fee-earning AUM based on invested capital (2)	1,051	—
Fee-earning AUM based on net asset value	2,903	—
Fee-earning AUM based on lower of cost or fair market value	21,594	22,454
Total Fee-earning AUM	\$35,274	\$33,744

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

(2) Includes amounts committed to or reserved for certain Metropolitan fund of funds vehicles.

The table below breaks out Fee-earning AUM by its respective components during the period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Solutions	(Dollars in millions)		(Dollars in millions)	
Fee-earning AUM Rollforward				
Balance, Beginning of Period	\$ 39,358	\$ 31,775	\$ 35,067	\$ 28,942
Acquisitions	—	—	2,894	—
Inflows, including Fee-paying Commitments (1)	882	1,793	4,431	6,714
Outflows, including Distributions (2)	(2,731)	(1,089)	(4,748)	(3,219)
Subscriptions, net of Redemptions (3)	(61)	—	(195)	—
Market Appreciation/(Depreciation) (4)	57	(35)	274	352
Foreign Exchange and other (5)	(2,231)	1,300	(2,449)	955
Balance, End of Period	\$ 35,274	\$ 33,744	\$ 35,274	\$ 33,744

(1) Inflows represent mandates where commitment fee period was activated and capital invested by fund of funds vehicles outside the commitment fee period or weighted-average investment period.

(2) Outflows represent distributions from fund of funds vehicles outside the commitment fee period or weighted-average investment period and changes in fee basis for fund of funds vehicles where the commitment fee period or weighted-average investment period has expired.

(3) Represents subscriptions and redemptions in our fund of hedge funds vehicles.

(4) Market Appreciation/(Depreciation) represents changes in the net asset value of our fund of hedge funds vehicles and realized and unrealized gains (losses) on our fund of funds vehicles based on the lower of cost or fair value.

(5) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Fee-earning AUM was \$35.3 billion at September 30, 2014, a decrease of \$4.1 billion, or approximately 10%, compared to \$39.4 billion at June 30, 2014. This decrease is driven by outflows of \$1.7 billion for certain fund of funds vehicles' change in fee basis methodology from commitments to lower of cost or fair value and distributions of \$1.0 billion, in addition to foreign exchange loss of \$2.2 billion in our Euro-denominated fund of funds vehicles, and net redemptions in our fund of hedge funds vehicles of \$0.1 billion. This was offset by inflows of \$0.9 billion in our AlpInvest fund of funds vehicles and \$0.1 billion of market appreciation. Distributions from funds still in the commitment or weighted-average investment period do not impact Fee-earning AUM as these funds are based on commitments and not invested capital. Increases in fair value have an impact on Fee-earning AUM for Solutions as fully committed funds are based on the lower of cost or fair value of the underlying investments.

Fee-earning AUM was \$35.3 billion at September 30, 2014, an increase of \$0.2 billion, or approximately 1%, compared to \$35.1 billion at December 31, 2013. This increase was driven by the acquisition of DGAM of \$2.9 billion, inflows of \$4.4 billion and market appreciation of \$0.3 billion, offset by outflows of \$4.7 billion, due to \$2.8 billion in dispositions and \$1.9 billion for reductions in fee basis from commitments to lower of cost or fair value, both primarily in our AlpInvest fund of funds vehicles, foreign exchange loss of \$2.4 billion, and net redemptions of \$0.2 billion in our fund of hedge fund vehicles.

Fee-earning AUM was \$35.3 billion at September 30, 2014, an increase of \$1.6 billion, or approximately 5%, compared to \$33.7 billion at September 30, 2013. This increase was driven by the \$5.1 billion for the acquisitions of DGAM and Metropolitan, inflows of \$5.3 billion and \$0.2 billion of market appreciation. This increase was offset by outflows of \$7.0, consisting of \$4.1 billion of distributions and \$2.9 billion for reductions in fee basis from

commitments to lower of cost or fair value, primarily in our AlpInvest fund of funds vehicles and \$0.2 billion of net redemptions in our fund of hedge funds vehicles.

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Fee-earning AUM was \$33.7 billion at September 30, 2013, an increase of \$2.0 billion, or more than 6%, compared to \$31.8 billion at June 30, 2013. This increase was driven by inflows of \$1.8 billion and foreign exchange gain of \$1.3 billion, offset by outflows of \$1.1 billion.

Fee-earning AUM was \$33.7 billion at September 30, 2013, an increase of \$4.8 billion, or approximately 17%, compared to \$28.9 billion at December 31, 2012. This increase was driven by inflows of \$6.7 billion, foreign exchange gain of \$1.0 billion, and market appreciation of \$0.4 billion, offset by outflows of \$3.2 billion.

Total AUM as of and for the Three and Nine Month Period Ended September 30, 2014

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

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Available Capital (Dollars in millions)	Fair Value of Capital	Total AUM	Available Capital (Dollars in millions)	Fair Value of Capital	Total AUM
Solutions						
Balance, Beginning of Period	\$19,302	\$37,426	\$56,728	\$17,063	\$32,741	\$49,804
Acquisitions	—	—	—	—	2,993	2,993
Commitments (1)	145	—	145	4,572	—	4,572
Capital Called, net (2)	(1,254)	) 1,138	(116)	) (3,595)	) 3,325	(270)
Distributions (3)	124	(2,491)	(2,367)	) 293	(7,051)	(6,758)
Subscriptions, net of Redemptions (4)	—	(31)	(31)	) —	(230)	(230)
Market						
Appreciation/(Depreciation) (5)	—	1,571	1,571	—	5,817	5,817
Foreign Exchange and other (6)	(704)	) (940)	(1,644)	) (720)	) (922)	(1,642)
Balance, End of Period	\$17,613	\$36,673	\$54,286	\$17,613	\$36,673	\$54,286

(1) Represents capital raised by our fund of funds vehicles, including activation of new mandates, net of expired available capital.

(2) Represents capital called by our fund of funds vehicles, net of fund fees and expenses.

(3) Represents distributions from our fund of funds vehicles, net of amounts recycled.

(4) Represents the net result of subscriptions to and redemptions from our fund of hedge funds vehicles.

Market Appreciation/(Depreciation) represents changes in the net asset value of our fund of hedge funds vehicles and realized and unrealized gains (losses) on fund investments, secondary investments, co-investments, and real estate fund of funds vehicles. Fair market values for fund of funds vehicles are based on the latest available valuations of the underlying limited partnership interests (in most cases as of June 30, 2014) as provided by their general partners, plus the net cash flows since the latest valuation, up to September 30, 2014.

(6) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Total AUM was \$54.3 billion at September 30, 2014, a decrease of \$2.4 billion, or approximately 4%, compared to \$56.7 billion at June 30, 2014. This decrease was primarily driven by \$2.4 billion of distributions and foreign exchange loss of \$1.6 billion in our Euro-denominated fund of funds vehicles. This decrease was offset by market appreciation of \$1.6 billion and net capital calls of \$0.1 billion.

Total AUM was \$54.3 billion at September 30, 2014, an increase of \$4.5 billion, or 9%, compared to \$49.8 billion at December 31, 2013. This increase was primarily driven by \$5.8 billion of market appreciation, new commitments and activated mandates of \$4.6 billion, and amounts related to the acquisition of DGAM of \$3.0 billion. This increase was offset by \$6.8 billion of distributions, foreign exchange loss of \$1.6 billion, and \$0.2 billion of net redemptions in our fund of hedge funds vehicles.

Fund Performance Metrics

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

The following tables reflect the performance of our significant funds in our Solutions business.

		TOTAL INVESTMENTS as of September 30, 2014						
		Cumulative						
	Vintage Year	Fund Size	Invested Capital (2)(8)	Total Fair Value (3)(8)	MOIC (4)	Gross IRR (6)	Net IRR (7)	
Solutions(1)		(Reported in Local Currency, in Millions)						
Fully Committed Funds(5)								
Main Fund I - Fund Investments	2000	€5,174.6	€4,009.6	€ 6,559.4	1.6x	12	% 12	%
Main Fund II - Fund Investments	2003	€4,545.0	€4,577.8	€ 7,042.7	1.5x	10	% 10	%
Main Fund III - Fund Investments	2005	€11,500.0	€11,327.5	€ 16,025.7	1.4x	9	% 9	%
Main Fund IV - Fund Investments	2009	€4,880.0	€2,781.7	€ 3,436.1	1.2x	13	% 12	%
Main Fund I - Secondary Investments	2002	€519.4	€475.1	€ 886.1	1.9x	55	% 51	%
Main Fund II - Secondary Investments	2003	€998.4	€948.9	€ 1,736.6	1.8x	27	% 26	%
Main Fund III - Secondary Investments	2006	€2,250.0	€2,200.6	€ 3,106.1	1.4x	10	% 10	%
Main Fund IV - Secondary Investments	2010	€1,856.4	€1,769.3	€ 2,650.2	1.5x	21	% 19	%
Main Fund II - Co-Investments	2003	€1,090.0	€894.2	€ 2,444.8	2.7x	45	% 42	%
Main Fund III - Co-Investments	2006	€2,760.0	€2,622.0	€ 3,677.1	1.4x	6	% 5	%
Main Fund IV - Co-Investments	2010	€1,475.0	€1,272.2	€ 2,309.9	1.8x	22	% 20	%
Main Fund II - Mezzanine Investments	2004	€700.0	€726.2	€ 983.0	1.4x	8	% 7	%
Main Fund III - Mezzanine Investments	2006	€2,000.0	€1,608.0	€ 2,120.5	1.3x	11	% 9	%
All Other Funds(9)	Various		€1,462.2	€ 2,127.5	1.5x	17	% 13	%
Total Fully Committed Funds			€36,675.3	€ 55,105.8	1.5x	12	% 12	%
Funds in the Commitment Period(5)								
Main Fund V - Fund Investments	2012	€5,080.0	€765.2	€ 738.4	1.0x	(6)	)(10)%
Main Fund V - Secondary Investments	2011	€3,793.0	€1,424.6	€ 2,017.4	1.4x	34	% 30	%
Main Fund V - Co-Investments	2012	€1,747.5	€838.2	€ 1,195.7	1.4x	44	% 40	%
All Other Funds(9)	Various		€213.5	€ 253.9	1.2x	17	% 15	%
Total Funds in the Commitment Period			€3,241.5	€ 4,205.4	1.3x	30	% 26	%

TOTAL SOLUTIONS	€39,916.8	€ 59,311.2	1.5x	13	%	12	%
TOTAL SOLUTIONS (USD)(10)	\$50,412.8	\$ 74,906.8	1.5x				

- Includes private equity and mezzanine primary fund investments, secondary fund investments and co-investments originated by the AlpInvest team. Excluded from the performance information shown are a) investments that were (1) not originated by AlpInvest, b) Direct Investments, which was spun off from AlpInvest in 2005, and c) Metropolitan Real Estate fund of funds vehicles. As of September 30, 2014, these excluded investments represent \$0.7 billion of AUM at AlpInvest and \$2.1 billion of AUM at Metropolitan.
- (2) Represents the original cost of all capital called for investments since inception of the fund.
- (3) Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.
- (4) Multiple of invested capital (“MOIC”) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.
- (5) Fully Committed funds are past the expiration date of the commitment period as defined in the respective limited partnership agreement.
- Gross Internal Rate of Return (“Gross IRR”) represents the annualized IRR for the period indicated on Limited
- (6) Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.

Net Internal Rate of Return (“Net IRR”) represents the annualized IRR for the period indicated on Limited Partner (7) invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.

(8) To exclude the impact of FX, all foreign currency cash flows have been converted to Euro at the reporting period spot rate.

(9) Aggregate includes Main Fund I - Co-Investments, Main Fund I - Mezzanine Investments, AlpInvest CleanTech Funds and funds which are not included as part of a main fund.

(10) Represents the U.S. dollar equivalent balance translated at the spot rate as of period end.

Liquidity and Capital Resources

Historical Liquidity and Capital Resources

We have historically required limited capital resources to support the working capital and operating needs of our business. Our management fees have largely covered our operating costs and we have distributed all realized performance fees after related compensation to equityholders. Historically, approximately 95% of all capital commitments to our funds have been provided by our fund investors, with the remaining amount typically funded by our senior Carlyle professionals, operating executives and other professionals.

Cash Flows

The significant captions and amounts from our consolidated statements of cash flows which include the effects of our Consolidated Funds and CLOs in accordance with U.S. GAAP are summarized below.

	Nine Months Ended September 30,	
	2014	2013
	(Dollars in millions)	
Statements of Cash Flows Data		
Net cash provided by operating activities	\$2,516.3	\$2,556.6
Net cash provided by (used in) investing activities	47.1	(64.0)
Net cash used in financing activities	(2,072.0)	) (2,225.5)
Effect of foreign exchange rate changes	(63.8)	) 21.5
Net change in cash and cash equivalents	\$427.6	\$288.6

Net Cash Provided by Operating Activities. Net cash provided by operating activities is primarily driven by our earnings in the respective periods after adjusting for non-cash performance fees, the related non-cash performance fee related compensation, and non-cash equity-based compensation, all of which are included in earnings. Cash used to purchase investments and trading securities as well as the proceeds from the sale of such investments are also reflected in our operating activities as investments are a normal part of our operating activities. Over time investment proceeds may be greater than investment purchases. During the nine months ended September 30, 2014, proceeds were \$500.2 million while purchases were \$191.9 million. However, in the nine months ended September 30, 2013, investment proceeds were \$231.4 million as compared to purchases of \$112.2 million. Also included in our net cash provided by operating activities are proceeds from sales of investments by the Consolidated Funds, offset by purchases of investments by the Consolidated Funds. For the nine months ended September 30, 2014, proceeds from the sales and settlements of investments by the Consolidated Funds were \$7,805.0 million, while purchases of investments by the Consolidated Funds were \$8,318.8 million. For the nine months ended September 30, 2013, proceeds from the sales and settlements of investments by the Consolidated Funds were \$8,916.5 million, while purchases of investments by the Consolidated Funds were \$8,993.1 million.

Net Cash Provided By (Used in) Investing Activities. Our investing activities generally reflect cash used for acquisitions, fixed assets and software for internal use, and changes in restricted cash. For the nine months ended September 30, 2014, cash provided by investing activities primarily reflects a change in restricted cash balances. Additionally, the acquisition of DGAM resulted in the use of cash, net of cash acquired, of \$3.1 million during the nine months ended September 30, 2014.

Net Cash Used in Financing Activities. Financing activities are a net use of cash in each of the historical periods presented. In March 2014, the Partnership received net proceeds from the issuance of 13,800,000 newly issued common units of \$449.5 million. The Partnership used \$303.4 million of these proceeds to acquire 9,300,000 Carlyle

Holdings partnership units from the other limited partners of the Carlyle Holdings partnerships. The remaining net proceeds were used by the Partnership to acquire 4,500,000 newly issued Carlyle Holdings partnership units. Carlyle Holdings will use the proceeds from the issuance of the 4,500,000 Carlyle Holdings partnership units for general corporate purposes, including investments in our funds as well as investment capital for acquisitions of new fund platforms and strategies or other growth initiatives, to drive innovation across the broader Carlyle platform. Also during March 2014, we received net proceeds of \$210.8 million, net of

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financing costs, from the issuance of \$200.0 million of 5.625% senior notes due 2043 at 104.315% of par. The net proceeds from this issuance will be used for general corporate purposes, including investments in our funds as well as investment capital for acquisitions of new fund platforms and strategies and other growth initiatives.

For the nine months ended September 30, 2013, we received net proceeds of \$495.3 million, net of financing costs, from the \$500.0 million 3.875% senior note issuance in January 2013 and \$394.1 million, net of financing costs, for the \$400.0 million 5.625% senior note issuance in March 2013. The proceeds from the 2013 senior note issuances were used to repay outstanding borrowings under our revolving credit facility and our term loan. Our repayments under our revolving credit facility were \$386.3 million and our repayments on our term loan were \$475.0 million for the nine months ended September 30, 2013.

Distributions to our common unitholders were \$91.9 million and \$52.0 million for the nine months ended September 30, 2014 and 2013, respectively. Distributions to the non-controlling interest holders in Carlyle Holdings were \$446.8 million and \$331.1 million for the nine months ended September 30, 2014 and 2013, respectively. The net payment on loans payable by our Consolidated Funds during the nine months ended September 30, 2014 and 2013 were \$1,087.6 million and \$1,462.7 million, respectively. For the nine months ended September 30, 2014 and 2013, contributions from non-controlling interest holders were \$1,923.9 million and \$1,909.5 million, respectively, which relate primarily to contributions from the non-controlling interest holders in Consolidated Funds. For the nine months ended September 30, 2014 and 2013, distributions to non-controlling interest holders were \$2,593.9 million and \$2,397.4 million, respectively, which relate primarily to distributions to the non-controlling interest holders in Consolidated Funds.

Our Sources of Cash and Liquidity Needs

We believe that our primary liquidity needs are to:

- provide capital to facilitate the growth of our existing business lines;
- provide capital to facilitate our expansion into new, complementary business lines, including acquisitions;
- pay operating expenses, including compensation and compliance costs and other obligations as they arise;
- fund capital expenditures;
- repay borrowings and related interest costs and expenses;
- pay earnouts and contingent cash consideration associated with our acquisitions and strategic investments;
- pay income taxes;
- make distributions to our unitholders and the holders of the Carlyle Holdings partnership units in accordance with our distribution policy; and
- fund the capital investments of Carlyle in our funds.

With respect to distribution year 2014, the Board of Directors of our general partner has declared cumulative distributions to common unitholders totaling approximately \$32.3 million, or \$0.48 per common unit, consisting of (i) \$0.16 per common unit in respect of the third quarter of 2014, which is payable on November 21, 2014 to common unitholders of record on November 10, 2014, (ii) \$0.16 per common unit in respect of the second quarter of 2014, which was paid in August 2014, and (iii) \$0.16 per common unit in respect of the first quarter of 2014, which was paid in May 2014.

Distributions to common unitholders paid during the nine months ended September 30, 2014 totaled \$91.9 million, representing the amount paid in March 2014 of \$1.40 per common unit with respect to the fourth quarter of 2013, the

\$0.16 per common unit quarterly distribution paid in May 2014, and the \$0.16 per common unit quarterly distribution paid in August 2014.

We currently anticipate that we will cause Carlyle Holdings to make quarterly distributions to its partners, including The Carlyle Group L.P.'s wholly owned subsidiaries, that will enable The Carlyle Group L.P. to pay a quarterly distribution of \$0.16 per common unit for each of the first three quarters of each year and for the fourth quarter of each year, to pay a distribution of at least \$0.16 per common unit that, taken together with the prior quarterly distributions in respect of that year, represents its share, net of taxes and amounts payable under the tax receivable agreement, of Carlyle's Distributable Earnings in excess of the

amount determined by Carlyle's general partner to be necessary or appropriate to provide for the conduct of Carlyle's business, to make appropriate investments in its business and its funds or to comply with applicable law or any of its financing agreements. We anticipate that the aggregate amount of our distributions for most years will be less than our Distributable Earnings for that year due to these funding requirements.

Notwithstanding the foregoing, the declaration and payment of any distributions will be at the sole discretion of our general partner, which may change our distribution policy at any time. Our general partner will take into account general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, legal, tax and regulatory restrictions, other constraints on the payment of distributions by us to our common unitholders or by our subsidiaries to us, and such other factors as our general partner may deem relevant.

Generally, we intend to have Carlyle commit to fund approximately 1% of the capital commitments to our future carry funds, although we may elect to invest additional amounts in funds focused on new investment areas. We may, from time to time, exercise our right to purchase additional interests in our investment funds that become available in the ordinary course of their operations. We expect our senior Carlyle professionals and employees to continue to make significant capital contributions to our funds based on their existing commitments, and to make capital commitments to future funds consistent with the level of their historical commitments. We also intend to make investments in our open-end funds and our CLO vehicles.

We generally use our working capital and cash flows to invest in growth initiatives, service our debt, fund the working capital needs of our business and investment funds and pay distributions to our unitholders. We have multiple sources of liquidity to meet our capital needs, including cash on hand, annual cash flows, accumulated earnings and funds from our senior credit facility, including a term loan facility and a revolving credit facility with \$750.0 million available as of September 30, 2014. We believe these sources will be sufficient to fund our capital needs for at least the next 12 months. If we determine that market conditions are favorable after taking into account our liquidity requirements, including the amounts available under our senior credit facility, we may seek to issue and sell common units in a registered public offering or to issue additional senior notes or other debt. For example, during the first quarter of 2014, we issued 13,800,000 common units in a registered public offering that provided net proceeds to us of \$449.5 million. We also issued \$200 million of 5.625% senior notes due 2043 during the first quarter of 2014 that provided net proceeds to us of \$210.8 million. We used a portion of the net proceeds from the equity issuance to purchase from certain holders, including certain of our directors and executive officers, an equivalent number of outstanding Carlyle Holdings partnership units. The remaining proceeds from the equity issuance and the proceeds from the debt issuance will be used for general corporate purposes, investments in our funds as well as investment capital for acquisitions of new fund platforms and strategies or other growth initiatives, to drive innovation across the broader Carlyle platform. During the first quarter of 2013, we issued \$500 million of senior notes due 2023 and \$400 million of senior notes due 2043 and used the proceeds from those note issuances to repay the outstanding balance under our revolving credit facility and \$475.0 million of our term loan borrowings.

Since our inception through September 30, 2014, we and our senior Carlyle professionals, operating executives and other professionals have invested or committed to invest in or alongside our funds. Approximately 5% of all capital commitments to our funds are funded collectively by us and our senior Carlyle professionals, operating executives and other professionals. The current invested capital and unfunded commitment of Carlyle and our senior Carlyle professionals, operating executives and other professionals to our investment funds as of September 30, 2014, consisted of the following:

Asset Class	Current Equity Invested	Unfunded Commitment	Total Current Equity Invested and Unfunded Commitment
	(Dollars in millions)		
Corporate Private Equity	\$1,619.6	\$1,909.1	\$3,528.7

Global Market Strategies	1,165.9	227.2	1,393.1
Real Assets	759.8	802.2	1,562.0
Solutions	65.7	38.8	104.5
Total	\$3,611.0	\$2,977.3	\$6,588.3

A substantial majority of these investments have been funded by, and a substantial majority of the remaining commitments are expected to be funded by, senior Carlyle professionals, operating executives and other professionals through our internal co-investment program. Of the \$3.0 billion of unfunded commitments, approximately \$2.7 billion is subscribed individually by senior Carlyle professionals, operating executives and other professionals, with the balance funded directly by the Partnership.

Investments as of September 30, 2014 consist of the following (dollars in millions):

Investments	\$985.2	
Less: Amounts attributable to non-controlling interests in consolidated entities	(241.1))
Less: Strategic equity method investment in NGP Management	(493.6))
Less: Investment in the general partner of NGP X associated with carried interest rights	(60.7))
Investments excluding non-controlling interests and NGP	189.8	
Plus: investments in Consolidated Funds, eliminated in consolidation	163.6	
Total investments attributable to Carlyle Holdings, exclusive of NGP management	\$353.4	

Another source of liquidity we may use to meet our capital needs is the realized carried interest and incentive fee revenue generated by our investment funds. Carried interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return. Incentive fees earned on hedge fund structures are realized at the end of each fund's measurement period. Incentive fees earned on our CLO vehicles are paid upon the dissolution of such vehicles.

Our accrued performance fees by segment as of September 30, 2014, gross and net of accrued giveback obligations, are set forth below:

Asset Class	Accrued Performance Fees (Dollars in millions)	Accrued Giveback Obligation	Net Accrued Performance Fees
Corporate Private Equity	\$2,799.9	\$(27.1)	) \$2,772.8
Global Market Strategies	140.5	(2.1)	) 138.4
Real Assets	328.1	(12.9)	) 315.2
Solutions	474.9	—	474.9
Total	\$3,743.4	\$(42.1)	) \$3,701.3
Plus: Investment in the general partner of NGP X associated with carried interest rights			60.7
Less: Accrued performance fee-related compensation			(1,771.6)
Plus: Receivable for give back obligations from current and former employees			14.4
Less: Net accrued performance fees attributable to non-controlling interests in consolidated entities			(5.3)
Net accrued performance fees excluding compensation and non-controlling interests			1,999.5
Plus: Net accrued performance fees in Consolidated Funds, eliminated in consolidation			6.3
Less: Net accrued performance fees realized in the third quarter of 2014 and to be collected in subsequent periods			(12.5)
Net accrued performance fees attributable to Carlyle Holdings, excluding realized amounts			\$1,993.3

Cash and cash equivalents were approximately \$1.4 billion at September 30, 2014. However, a portion of this cash is allocated for specific business purposes, including, but not limited to, (i) performance fee-related cash that has been received but not yet distributed as performance fee-related compensation and amounts owed to non-controlling interests; (ii) proceeds received from realized investments that are allocable to non-controlling interests; and (iii) cash reserved for potential future giveback obligations. After deducting cash amounts allocated to these specific requirements, the remaining cash and cash equivalents is approximately \$880 million as of September 30, 2014. This remaining amount will be used towards our primary liquidity needs, as previously outlined.

Our Balance Sheet and Indebtedness

Total assets were \$37.7 billion at September 30, 2014, an increase of \$2.0 billion from December 31, 2013. The increase in total assets was primarily attributable to increases in cash and cash equivalents, cash and cash equivalents held at Consolidated Funds, investments of Consolidated Funds, and accrued performance fees. Assets of the

Consolidated Funds were approximately \$30.3 billion at September 30, 2014, representing an increase of \$1.3 billion from December 31, 2013. Cash and

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cash equivalents were approximately \$1.4 billion, an increase of \$0.5 billion from December 31, 2013. Accrued performance fees were approximately \$3.7 billion at September 30, 2014, representing an increase of \$0.1 billion from December 31, 2013.

Total liabilities were \$22.7 billion at September 30, 2014, an increase of \$1.9 billion from December 31, 2013. The increase in liabilities was primarily attributable to increases in the liabilities of the Consolidated Funds, which increased \$1.4 billion from December 31, 2013 to September 30, 2014, and an increase in the outstanding 5.625% senior notes due 2043, which increased \$0.2 billion from December 31, 2013 to September 30, 2014.

The assets and liabilities of the Consolidated Funds are generally held within separate legal entities and, as a result, the assets of the Consolidated Funds are not available to meet our liquidity requirements and similarly the liabilities of the Consolidated Funds are non-recourse to us. The assets and liabilities of the consolidated real estate VIE are also held in separate legal entities; we have not guaranteed or assumed any obligation for repayment of its liabilities nor are its assets available to meet our liquidity requirements.

Our balance sheet without the effect of the Consolidated Funds can be seen in Note 20 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. At September 30, 2014, our total assets were \$7.6 billion, including cash and cash equivalents of \$1.4 billion and accrued performance fees of \$3.8 billion.

Loans Payable. Loans payable on our balance sheet at September 30, 2014 reflects \$25.0 million outstanding under our senior credit facility, comprised of \$25.0 million of term loan balance outstanding. No amount was outstanding under the revolving credit facility of our senior credit facility. Additionally, loans payable at September 30, 2014 includes \$15.9 million outstanding under a separate term loan entered into during 2013 related to an investment in a CLO.

Senior Credit Facility. The senior credit facility includes \$25.0 million in a term loan and \$750.0 million in a revolving credit facility. The term loan and revolving credit facility mature on August 9, 2018. Principal amounts outstanding under the amended term loan and revolving credit facility accrue interest, at the option of the borrowers, either (a) at an alternate base rate plus an applicable margin not to exceed 0.75%, or (b) at LIBOR plus an applicable margin not to exceed 1.75% (1.41% at September 30, 2014).

The senior credit facility is unsecured. We are required to maintain management fee earning assets (as defined in the senior credit facility) of at least \$65 billion plus 70% of any future acquired AUM and a total debt leverage ratio of less than 3.0 to 1.0, in each case, tested on a quarterly basis. Non-compliance with any of the financial or non-financial covenants without cure or waiver would constitute an event of default under the senior credit facility. An event of default resulting from a breach of certain financial or non-financial covenants may result, at the option of the lenders, in an acceleration of the principal and interest outstanding, and a termination of the revolving credit facility. The senior credit facility also contains other customary events of default, including defaults based on events of bankruptcy and insolvency, nonpayment of principal, interest or fees when due, breach of specified covenants, change in control and material inaccuracy of representations and warranties.

Other Term Loan. On October 3, 2013, the Partnership borrowed €12.6 million (\$15.9 million at September 30, 2014) under a new term loan and security agreement with a financial institution. Interest on the term loan accrues at EURIBOR plus 1.75% (1.83% at September 30, 2014). The Partnership may prepay the facility in whole or in part at any time without penalty. The facility is scheduled to mature on the earlier of five years after closing or the date that the CLO is dissolved. The facility is secured by the Partnership's investment in the CLO.

3.875% Senior Notes. In January 2013, Carlyle Holdings Finance L.L.C., an indirect finance subsidiary of the Partnership, issued \$500.0 million of 3.875% senior notes due February 1, 2023 at 99.966% of par. Interest is payable semi-annually on February 1 and August 1, beginning August 1, 2013. The notes are unsecured and unsubordinated obligations of Carlyle Holdings Finance L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Carlyle Group L.P. and each of the Carlyle Holdings partnerships. The indenture governing the notes contains customary covenants that, among other things, limit Carlyle Holdings Finance L.L.C. and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The notes also contain customary events of default. All or a portion of the notes may be redeemed at our option, in whole or in part, at any time and

from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the notes. If a change of control repurchase event occurs, the notes are subject to repurchase at the repurchase price as set forth in the notes. 5.625% Senior Notes. In March 2013, Carlyle Holdings II Finance L.L.C., an indirect finance subsidiary of the Partnership, issued \$400.0 million of 5.625% Senior Notes due March 30, 2043 at 99.583% of par. Interest is payable semi-annually on March 30 and September 30, beginning September 30, 2013. The notes are unsecured and unsubordinated obligations of Carlyle Holdings II Finance L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Carlyle Group L.P. and each of the Carlyle Holdings partnerships. The indenture governing the notes contains customary

covenants and financial restrictions that, among other things, limit Carlyle Holdings Finance II L.L.C. and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The notes also contain customary events of default. All or a portion of the notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the notes. If a change of control repurchase event occurs, the notes are subject to repurchase at the repurchase price as set forth in the notes.

In March 2014, Carlyle Holdings II Finance L.L.C. issued \$200.0 million of 5.625% Senior Notes due March 30, 2043 at 104.315% of par. These notes were issued as additional 5.625% Senior Notes due March 30, 2043 and will be treated as a single class with the already outstanding \$400.0 million aggregate principal amount of these senior notes. Obligations of CLOs. Loans payable of the Consolidated Funds represent amounts due to holders of debt securities issued by the CLOs. We are not liable for any loans payable of the CLOs. Several of the CLOs issued preferred shares representing the most subordinated interest, however these tranches are mandatorily redeemable upon the maturity dates of the senior secured loans payable, and as a result have been classified as liabilities under U.S. GAAP, and are included in loans payable of Consolidated Funds in our combined and consolidated balance sheets.

As of September 30, 2014, the following borrowings were outstanding at our CLOs, including preferred shares classified as liabilities (dollars in millions):

	Borrowing Outstanding	Weighted Average Interest Rate	%	Weighted Average Remaining Maturity in Years
Senior secured notes	\$15,289.9	1.67	%	9.17
Subordinated notes and preferred shares	1,359.4	N/A	(1)	7.94
Combination notes	15.0	N/A	(2)	7.39
Total	\$16,664.3			

(1) The subordinated notes, income notes and preferred shares do not have contractual interest rates, but instead receive distributions from the excess cash flows of the CLOs.

(2) The combination notes do not have contractual interest rates and have recourse only to securities specifically held to collateralize such combination notes.

The fair value of senior secured notes, subordinated notes, income notes and preferred shares, and combination notes of our CLOs as of September 30, 2014 was \$14,984.4 million, \$1,420.2 million, and \$16.3 million, respectively. Loans payable of the CLOs are collateralized by the assets held by the CLOs and the assets of one CLO may not be used to satisfy the liabilities of another. This collateral consists of cash and cash equivalents, corporate loans, corporate bonds and other securities.

Loans Payable of a Consolidated Real Estate VIE. This balance consists of the borrowings of Urbplan for its real estate development activities. As of September 30, 2014, the principal amount outstanding on the loans was approximately \$291.1 million. The Partnership records the borrowings of Urbplan at fair value on its consolidated balance sheet; the fair value of the Urbplan borrowings at September 30, 2014 was \$160.1 million. The principal amounts of the loans accrue interest at a variable rate based on an index plus an applicable margin. Interest rates are based on: (i) CDI plus a margin ranging from 4.0% to 7.4% (14.8% to 18.2% as of September 30, 2014); (ii) IGP-M plus a margin of 12.0% (16.9% as of September 30, 2014); or (iii) IPCA plus a margin ranging from 10.0% to 13.5% (16.5% to 20.0% as of September 30, 2014).

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

loans in default.

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

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Unconsolidated Entities

Our corporate private equity funds have not historically utilized substantial leverage at the fund level other than short-term borrowings under certain fund level lines of credit which are used to fund liquidity needs in the interim between the date of an investment and the receipt of capital from the investing fund's investors. These funds do, however, make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

Certain of our real estate funds have entered into lines of credits secured by their investors' unpaid capital commitments or by a pledge of the equity of the underlying investment. Due to the relatively large number of investments made by these funds, the lines of credit are primarily employed to reduce the overall number of capital calls or for working capital needs. In certain instances, however, they may be used for other investment related activities, including serving as bridge financing for investments. The degree of leverage employed varies among portfolio companies.

Off-balance Sheet Arrangements

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated funds. We do not have any other off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in any of our other investment funds.

For further information regarding our off-balance sheet arrangements, see Note 2 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Contractual Obligations

The following table sets forth information relating to our contractual obligations as of September 30, 2014 on a consolidated basis and on a basis excluding the obligations of the Consolidated Funds:

	October 1, 2014 to December 31, 2014	2015-2016	2017-2018	Thereafter	Total
	(Dollars in millions)				
Loans payable and senior notes(a)	\$—	\$—	\$40.9	\$1,100.0	\$1,140.9
Interest payable(b)	14.2	111.1	108.3	897.6	1,131.2
Contingent cash consideration(c)	6.2	152.2	67.0	355.8	581.2
Operating lease obligations(d)	25.0	117.0	92.1	268.5	502.6
Capital commitments to Carlyle funds(e)	2,977.3	7.5	—	—	2,984.8
Tax receivable agreement payments(f)	—	5.0	8.1	85.9	99.0
Loans payable of Consolidated Funds(g)	93.0	516.5	794.6	17,761.6	19,165.7
Loans payable of a consolidated real estate VIE(h)	36.2	127.5	92.9	212.3	468.9
Unfunded commitments of the CLOs and Consolidated Funds(i)	1,007.6	—	—	—	1,007.6
Redemptions payable of Consolidated Funds(j)	129.3	—	—	—	129.3
Consolidated contractual obligations	4,288.8	1,036.8	1,203.9	20,681.7	27,211.2
Loans payable of Consolidated Funds(g)	(93.0)	(516.5)	(794.6)	(17,761.6)	(19,165.7)
Loans payable of a consolidated real estate VIE(h)	(36.2)	(127.5)	(92.9)	(212.3)	(468.9)
Capital commitments to Carlyle funds(e)	(2,687.6)	—	—	—	(2,687.6)
Unfunded commitments of the CLOs and Consolidated Funds(i)	(1,007.6)	—	—	—	(1,007.6)
	(129.3)	—	—	—	(129.3)

Redemptions payable of Consolidated
Funds(j)

Carlyle Operating Entities contractual obligations	\$335.1	\$392.8	\$316.4	\$2,707.8	\$3,752.1
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The table above assumes that no prepayments are made on the term loans or senior notes and that the outstanding balance on the revolving credit facility is repaid on the maturity date of the senior credit facility. On August 9, 2013, we entered into Amendment No. 1 to the senior credit facility to extend the maturity date of the term loan (a) and revolving credit facility from September 30, 2016 until August 9, 2018, and to eliminate all amortization of outstanding term loans, with all such term loans being due and payable on the new maturity date. The term loan entered into during 2013 related to an investment in a CLO matures on the earlier of 2018 or the date that the CLO is dissolved. For purposes of the table above, it is assumed that the CLO does not dissolve prior to 2018.

The interest rate on the loans payable consist of 3.875% on \$500.0 million of senior notes, 5.625% on \$600.0 million of senior notes, approximately 2.33% on \$25.0 million of the term loan of our senior credit facility (b) (inclusive of the effect of the outstanding interest rate swaps), and approximately 1.83% on \$15.9 million of our other term loan. Interest payments assume that no prepayments are made and loans are held until maturity. These obligations represent our probability-weighted estimate of amounts to be paid on the contingent cash consideration obligations associated with our business acquisitions and strategic investment in NGP Management. The actual amounts to be paid under these agreements will not be determined until the specific performance conditions are met. Refer to “— Contingent Cash Payments for Business Acquisitions and Strategic Investments” below (c) for the maximum amounts we may be required to pay under these arrangements and Note 6 and Note 9 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information. Included in these amounts are \$48.0 million of employment-based contingent consideration payments that have been earned but are not payable until the individuals are no longer employees of Carlyle, the timing of which cannot be predicted. For purposes of the table above, the timing has been based on a probability-weighted estimate.

We lease office space in various countries around the world and maintain our headquarters in Washington, D.C., (d) where we lease our primary office space under a non-cancelable lease agreement expiring on July 31, 2026. Our office leases in other locations expire in various years from 2014 through 2031. The amounts in this table represent the minimum lease payments required over the term of the lease.

These obligations represent commitments by us to fund a portion of the purchase price paid for each investment made by our funds. These amounts are generally due on demand and are therefore presented in the less than one year category. A substantial majority of these investments is expected to be funded by senior Carlyle professionals and other professionals through our internal co-investment program. Of the \$3.0 billion of unfunded commitments, (e) approximately \$2.7 billion is subscribed individually by senior Carlyle professionals, operating executives and other professionals, with the balance funded directly by the Partnership. Also included in these amounts is \$7.5 million that will be paid to NGP in January 2015 in exchange for an additional 7.5% equity interest in NGP Management. As a result of this transaction, beginning in January 2015, the Partnership will receive 55% of the management fee-related revenues of NGP entities that serve as the advisors to certain private equity funds.

Represents obligations by the Partnership’s corporate taxpayers to make payments under the tax receivable agreement. Holders of partnership units in Carlyle Holdings may exchange their Carlyle Holdings partnership units (f) for common units in The Carlyle Group L.P. on a one-for-one basis. These exchanges may reduce the amount of tax that the corporate taxpayers would be required to pay in the future. The corporate taxpayers will pay to the limited partner of Carlyle Holdings making the exchange 85% of the amount of cash savings that the corporate taxpayers realize upon an exchange. See “Tax Receivable Agreement” below.

These obligations represent amounts due to holders of debt securities issued by the consolidated CLO vehicles. These obligations include interest to be paid on debt securities issued by the consolidated CLO vehicles. Interest (g) payments assume that no prepayments are made and loans are held until maturity. For debt securities with rights only to the residual value of the CLO and no stated interest, no interest payments were included in this calculation. Interest payments on variable-rate debt securities are based on interest rates in effect as of September 30, 2014, at spreads to market rates pursuant to the debt agreements, and range from 0.44% to 12.65%.

(h) These obligations represent amounts owed to the lenders of Urbplan. These obligations include interest to be paid on the loans of Urbplan. Principal and interest payments shown herein assume that amounts will be paid according to the contractual maturities of the loans without acceleration due to default or covenant violation or other voluntarily prepayments. Interest payments on variable-rate debt are based on interest rates in effect as of

September 30, 2014, at spreads to market rates pursuant to the loan agreements, and range from 14.8% to 20.0%. Due to the timing and availability of financial information from Urbplan, we consolidate the financial position and results of operations of Urbplan on a financial reporting lag of 90 days. The balances shown in this table are based on Urbplan's outstanding borrowings as of June 30, 2014.

(i) These obligations represent commitments of the CLOs and Consolidated Funds to fund certain investments. These amounts are generally due on demand and are therefore presented in the less than one year category.

Our consolidated hedge funds are subject to quarterly or monthly redemption by investors in these funds. These (j) obligations represent the amount of redemptions where the amount requested in the redemption notice has become fixed and payable.

Excluded from the table above are liabilities for uncertain tax positions of \$14.7 million at September 30, 2014 as we are unable to estimate when such amounts may be paid. Also excluded from the table above are outstanding commitments of

Urbplan for land development services with an estimated \$146 million of future costs to be incurred; these amounts have been excluded as we are unable to determine when such amounts will be paid.

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Contingent Funding of the Consolidated Real Estate VIE

As described in Note 17 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, we and certain of our senior Carlyle professionals have made and may make additional investments in Urbplan. From April 2013 (the time of the first additional investment into Urbplan) through September 30, 2014, \$171.2 million has been funded to Urbplan by us and our senior Carlyle professionals (net of gains from related foreign currency forward contracts). We have funded \$40.3 million of the \$171.2 million and the remaining \$130.9 million has been funded by our senior Carlyle professionals indirectly through the Partnership. For the three months ended September 30, 2014, \$18.4 million was funded to Urbplan, of which we funded \$4.6 million and the senior Carlyle professionals funded \$13.8 million indirectly through us.

At this time, Urbplan is expected to require additional funding of approximately \$80 million to \$130 million to enable it to continue operations; however, the actual amount of additional funding necessary may exceed this estimate. While no contractual or other obligations exist to provide additional financial support to Urbplan, we and our senior Carlyle professionals expect to provide additional capital funding to Urbplan in the future and Urbplan will continue to seek capital funding from unaffiliated parties. We and our senior Carlyle professionals will evaluate the possibility of further capital infusions based on the circumstances at the time (including levels of third-party funding participation). It is anticipated that we would fund 25% and our senior Carlyle professionals would fund 75% indirectly through us of any additional investments made by us and our senior Carlyle professionals.

We may not recover, in whole or in part, the capital that we have invested in or any additional capital that we may elect to invest in Urbplan in the future, and our results of operations could be adversely impacted by impairments, write-downs, lawsuits by customers or creditors, other claims against Urbplan or us or other losses associated with our investment in Urbplan. Urbplan is currently a party to various litigation, disputes and other potential claims. We do not believe it is probable that the outcome of any existing Urbplan litigation, government investigations and proceedings, disputes, or other potential claims will materially affect us or our consolidated financial statements. The assets and liabilities of Urbplan are held in legal entities separate from the Partnership; we have not guaranteed or assumed any obligation for repayment of Urbplan's liabilities nor are the assets of Urbplan available to meet our liquidity requirements. However, if Urbplan fails to complete its construction projects, customers, partners, government agencies or municipalities or other creditors in certain circumstances might seek to assert claims against us and our assets unrelated to Urbplan under certain consumer protection or other laws.

Contingent Cash Payments for Business Acquisitions and Strategic Investments

We have certain contingent cash obligations associated with our business acquisitions and our strategic investment in NGP Management. For our business acquisitions, these contingent cash payments relate to performance-based contingent cash consideration payable to the sellers of the businesses, some of whom are Carlyle professionals. Certain of these payments to those Carlyle professionals require such Carlyle professionals to be employed by us at the time the performance conditions are met, while other payments are not contingent upon employment. For our strategic investment in NGP Management, the contingent cash payments relate to performance-based contingent cash consideration payable to ECM Capital, L.P. and an affiliate of Barclays Bank PLC. The performance-based contingent cash consideration payable to an affiliate of Barclays Bank PLC totaling \$183.0 million, which is payable partly in cash and partly by a promissory note, is earned based on NGP's achievement of certain business performance goals, including the successful fundraising by NGP of new fund commitments. See Note 6 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

The amounts shown in the contractual obligations table above represent our probability-weighted estimate of amounts to be paid on the contingent cash consideration obligations associated with our business acquisitions and our strategic investment in NGP Management. Except as noted below, the following table represents the maximum amounts that could be paid from our contingent cash obligations associated with our business acquisitions and our strategic investment in NGP Management and an estimated amount payable for the options related to NGP:

	As of September 30, 2014			Liability Recognized on Financial Statements(1)
	Business Acquisitions	NGP Investment	Total	
	(Dollars in millions)			
Performance-based contingent cash consideration	\$266.6	\$183.0	\$449.6	\$237.8
Employment-based contingent cash consideration	345.8	45.0	390.8	157.3
Total	\$612.4	\$228.0	\$840.4	\$395.1

On our consolidated balance sheet, the liability for performance-based contingent cash consideration is included in due to affiliates (for amounts owed to Carlyle professionals) and accounts payable, accrued expenses, and other (1) liabilities (for amounts owed to other sellers), and the liability for employment-based contingent cash consideration is included in accrued compensation and benefits. Also, the amounts shown here exclude the liabilities that have been recognized on our consolidated financial statements for performance-based contingent equity consideration. Some of the employment-based contingent cash consideration agreements do not contain provisions limiting the amount that could be paid by us. For purposes of the table above, we have used our current estimate of the amount to be paid upon the determination dates for such payments. In our consolidated financial statements, we record the performance-based contingent cash consideration from our business acquisitions at fair value at each reporting period. For the employment-based contingent cash consideration, we accrue the compensation liability over the implied service period.

Guarantees

In 2001, we entered into an agreement with a financial institution pursuant to which we are the guarantor on a credit facility for eligible employees investing in Carlyle sponsored funds. This credit facility renews on an annual basis, allowing for annual incremental borrowings up to an aggregate of \$16.0 million, and accrues interest at the lower of the prime rate, as defined, or three-month LIBOR plus 2%, reset quarterly. At September 30, 2014, approximately \$8.2 million was outstanding under the credit facility and payable by the employees. No material funding under the guarantee has been required, and we believe the likelihood of any material funding under the guarantee to be remote. In July 2012, we provided a guarantee to the French tax authorities as credit support for a €45.7 million tax assessment and in October 2012, placed an additional €4.4 million in escrow, in each case, related to CEREP I. We expect to incur costs on behalf of CEREP I and its related entities. We will attempt to recover any amounts advanced or paid under the guarantee from proceeds of subsequent portfolio dispositions by CEREP I. The amount of any unrecoverable costs that may be incurred by us is not estimable at this time. Refer to "Contingencies" below and Note 11 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information.

Indemnifications

In many of our service contracts, we agree to indemnify the third-party service provider under certain circumstances. The terms of the indemnities vary from contract to contract, and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our consolidated financial statements as of September 30, 2014.

Tax Receivable Agreement

Holders of partnership units in Carlyle Holdings (other than The Carlyle Group L.P.'s wholly-owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions applicable to such holders as set forth in the partnership agreements of the Carlyle Holdings partnerships, may (subject to the terms of

the exchange agreement) exchange their Carlyle Holdings partnership units for The Carlyle Group L.P. common units on a one-for-one basis. A Carlyle Holdings limited partner must exchange one partnership unit in each of the three Carlyle Holdings partnerships to effect an exchange for a common unit. The exchanges are expected to result in increases in the tax basis of the tangible and intangible

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assets of Carlyle Holdings. These increases in tax basis may increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of tax that Carlyle Holdings I GP Inc. and any other corporate taxpayers would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

In connection with the reorganization and initial public offering, we have entered into a tax receivable agreement with the limited partners of the Carlyle Holdings partnerships that will provide for the payment by the corporate taxpayers to such parties of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the corporate taxpayers realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. This payment obligation is an obligation of the corporate taxpayers and not of Carlyle Holdings. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that as a result of the size of the transfers and increases in the tax basis of the tangible and intangible assets of Carlyle Holdings, the payments that we may make under the tax receivable agreement will be substantial. The payments under the tax receivable agreement are not conditioned upon these parties' continued ownership of us. In the event that The Carlyle Group L.P. or any of its wholly-owned subsidiaries that are not treated as corporations for U.S. federal income tax purposes become taxable as a corporation for U.S. federal income tax purposes, these entities will also be obligated to make payments under the tax receivable agreement on the same basis and to the same extent as the corporate taxpayers.

The tax receivable agreement provides that upon certain changes of control, or if, at any time, the corporate taxpayers elect an early termination of the tax receivable agreement, the corporate taxpayers' obligations under the tax receivable agreement (with respect to all Carlyle Holdings partnership units whether or not previously exchanged) would be calculated by reference to the value of all future payments that the counterparties would have been entitled to receive under the tax receivable agreement using certain valuation assumptions, including that the corporate taxpayers' will have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement and, in the case of an early termination election, that any Carlyle Holdings partnership units that have not been exchanged are deemed exchanged for the market value of the common units at the time of termination. In addition, the counterparties will not reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase is successfully challenged by the IRS. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, including the timing and amount of our future income. As a result, even in the absence of a change of control or an election to terminate the tax receivable agreement, payments under the tax receivable agreement could be in excess of the corporate taxpayers' actual cash tax savings.

Contingent Obligations (Giveback)

An accrual for potential repayment of previously received performance fees of \$42.1 million at September 30, 2014 (\$51.5 million before \$9.4 million is eliminated in the consolidation of Consolidated Funds) is shown as accrued giveback obligations on the consolidated balance sheet, representing the giveback obligation that would need to be paid if the funds were liquidated at their current fair values at September 30, 2014. However, the ultimate giveback obligation, if any, does not arise until the end of a fund's life. We have recorded \$14.4 million of unbilled receivables from former and current employees and our individual senior Carlyle professionals as of September 30, 2014 related to giveback obligations, which are included in due from affiliates and other receivables, net in our consolidated balance sheet as of such date.

If, as of September 30, 2014, all of the investments held by our funds were deemed worthless, the amount of realized and distributed carried interest subject to potential giveback would be \$1.1 billion, on an after-tax basis where applicable.

Our senior Carlyle professionals and employees who have received carried interest distributions are severally responsible for funding their proportionate share of any giveback obligations. However, the governing agreements of

certain of our funds provide that to the extent a current or former employee from such funds does not fund his or her respective share, then we may have to fund additional amounts beyond what we received in carried interest, although we will generally retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

Contingencies

In the ordinary course of business, we are a party to litigation, investigations, disputes and other potential claims. Certain of these matters are described below. We are not currently able to estimate for any such matters the reasonably possible amount of loss or range of loss. We do not believe it is probable that the outcome of any existing litigation, investigations, disputes or

other potential claims will materially affect us. We believe that these matters are without merit and intend to vigorously contest them.

On February 14, 2008, a private class-action lawsuit challenging “club” bids and other alleged anti-competitive business practices was filed in the U.S. District Court for the District of Massachusetts (Police and Fire Retirement System of the City of Detroit v. Apollo Global Management, LLC, later renamed Kirk Dahl v. Bain Capital Partners LLC). The complaint alleges, among other things, that certain global alternative asset firms, including the Partnership, violated Section 1 of the Sherman Act by forming multi-sponsor consortiums for the purpose of bidding collectively in company buyout transactions in certain going private transactions and agreeing not to submit topping bids once such a consortium had announced a signed deal, which the plaintiffs allege constitutes a “conspiracy in restraint of trade.” All of our codefendants reached settlement agreements with plaintiffs. To avoid the risk and cost associated with continuing the litigation through trial, we entered into an agreement with plaintiffs on August 29, 2014 to settle all claims against us without any admission of liability. The Court granted preliminary approval of all the defendants' settlements, including Carlyle's, on September 29, 2014. A hearing on final approval of the settlements is scheduled for February 11, 2015. Carlyle Partners IV, L.P. (“CP IV”) and its affiliates will bear the costs of the settlement not covered by insurance. As a result, our performance fees from CP IV were reduced by \$19.3 million.

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

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

First, in November 2009, another CCC investor, National Industries Group (Holding) (“National Industries”) instituted legal proceedings on similar grounds in Kuwait's Court of First Instance (National Industries Group v. Carlyle Group) seeking to recover losses incurred in connection with an investment in CCC. In July 2011, the Delaware Court of Chancery issued a decision restraining National Industries from proceeding in Kuwait on any CCC-related claims based on the forum selection clause in National Industries' subscription agreement, which provided for exclusive jurisdiction in the Delaware courts. In September 2011, National Industries reissued its complaint in Kuwait naming CCC only, and reissued its complaint in January 2012 joining Carlyle Investment Management, L.L.C. as a defendant. In April 2013, the court in Kuwait dismissed National Industries' claim without prejudice for failure to serve process. Hearings in the case and related to the case have nevertheless taken place on several occasions since that time, most recently in September 2013. Meanwhile, in August 2012, National Industries had filed a motion to vacate the Delaware Court of Chancery's decision. Carlyle successfully opposed that motion and the Court's injunction remained in effect. In November 2012, National Industries appealed that decision to the Delaware Supreme Court. On May 29, 2013, the Delaware Supreme Court affirmed the Chancery Court's decision and upheld the 2011 injunction barring National Industries from filing or prosecuting any CCC-related action in any forum other than the courts of Delaware. Second, the Guernsey liquidators who took control of CCC in March 2008 filed four suits on July 7, 2010 against Carlyle, certain of its affiliates and the former directors of CCC in the Delaware Chancery Court, the Royal Court of Guernsey, the Superior Court of the District of Columbia and the Supreme Court of New York, New York County (Carlyle Capital Corporation Limited v. Conway et al.) seeking \$1.0 billion in damages. They allege that Carlyle and

the CCC board of directors were negligent, grossly negligent or willfully mismanaged the CCC investment program and breached certain fiduciary duties allegedly owed to CCC and its shareholders. The liquidators further allege (among other things) that the directors and Carlyle put the interests of Carlyle ahead of the interests of CCC and its shareholders and gave priority to preserving and enhancing Carlyle's reputation and its "brand" over the best interests of CCC. In July 2011, the Royal Court of Guernsey held that the case should be litigated in Delaware pursuant to the exclusive jurisdiction clause in the investment management agreement. That ruling was appealed by the liquidators, and in February 2012 was reversed by the Guernsey Court of Appeal, which held that the case should proceed in Guernsey. Defendants' attempts to appeal to the Privy Council were unsuccessful and the plaintiffs' case is proceeding in Guernsey. Two claims in that case, which sought the return of certain documents and other property purportedly belonging to CCC, were resolved by agreement of the parties and order of the Royal Court of Guernsey in

December 2012. Carlyle has now completed its document production pursuant to that order. On July 24, 2013, plaintiffs filed an amended complaint, which contained further detail in support of the existing claims but no new defendants or claims. On December 20, 2013, defendants filed a defense to the amended complaint and on September 30, 2014 plaintiffs filed their reply. The Court has set the case schedule and trial is scheduled for the first available date after February 1, 2016. In addition, the liquidators' lawsuits in New York and the District of Columbia were dismissed in December 2011 without prejudice.

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

Other Contingencies

From 2007 to 2009, a Luxembourg subsidiary of CEREP I, a real estate fund, received proceeds from the sale of real estate located in Paris, France. The relevant French tax authorities have asserted that CEREP I was ineligible to claim certain exemptions from French tax under the Luxembourg-French tax treaty, and have issued a tax assessment seeking to collect approximately €97.0 million, consisting of taxes, interest and penalties. Additionally, the French Ministry of Justice has commenced an investigation regarding the legality under French law of claiming the exemptions under the tax treaty.

CEREP I and its subsidiaries are contesting the French tax assessment. In July 2012, we provided a guarantee to the French tax authorities as credit support for the €45.7 million tax assessment and in October 2012, placed an additional €4.4 million in escrow, in each case, related to CEREP I. We expect to incur costs on behalf of CEREP I and its related entities. We will attempt to recover any amounts advanced or paid from proceeds of subsequent portfolio dispositions by CEREP I. The amount of any unrecoverable costs that may be incurred by us is not estimable at this time.

Commencing with the issuance of the credit support on behalf of CEREP I in July 2012, we consolidated the fund into our consolidated financial statements. As of September 30, 2014, CEREP I had accrued €75.0 million (\$94.7 million as of September 30, 2014) related to this contingency, which is included in other liabilities of Consolidated Funds in our consolidated financial statements.

Carlyle Holdings Partnership Units

A rollforward of the outstanding Carlyle Holdings partnership units from December 31, 2013 through September 30, 2014 is as follows:

	Units as of December 31, 2013	Units Issued	Units Forfeited	Units Exchanged	Units as of September 30, 2014
Carlyle Holdings partnership units held by the Partnership	48,605,870	8,732,014	—	9,300,000	66,637,884
Carlyle Holdings partnership units not held by the Partnership	262,164,851	—	(2,096,789)	(9,300,000)	250,768,062
Total Carlyle Holdings partnership units	310,770,721	8,732,014	(2,096,789)	—	317,405,946

The Carlyle Holdings partnership units issued to the Partnership during the period from December 31, 2013 through September 30, 2014 relate to: (i) the Partnership using the net cash proceeds from the issuance of 4,500,000 common units in March 2014 to acquire 4,500,000 newly issued Carlyle Holdings partnership units, (ii) the vesting of the Partnership's deferred restricted common units during the nine months ended September 30, 2014, (iii) the acquisition of DGAM in February 2014, and (iv) the acquisition by the Partnership of 15,566 Carlyle Holdings partnership units upon the vesting of certain of the Partnership's common units associated with the acquisition of the remaining 40% equity interest in AlpInvest in August 2013. Further, the Partnership is expected to acquire an additional 731,970 Carlyle Holdings partnership units in future periods upon the vesting of certain of the Partnership's unvested common

units associated with the acquisition of the remaining 40% equity interest in AlpInvest in August 2013. The Carlyle Holdings partnership units forfeited during the period from December 31, 2013 through September 30, 2014 relate to unvested Carlyle Holdings partnership units that were forfeited when the holder ceased to provide services to the Partnership. The Carlyle Holdings partnership units exchanged relate to the Partnership's use of the net cash proceeds from the issuance of 9,300,000 common units in March 2014 to acquire 9,300,000 Carlyle Holdings partnership units from the other limited partners of Carlyle Holdings.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary exposure to market risk is related to our role as general partner or investment advisor to our investment funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income. Although our investment funds share many common themes, each of our alternative asset management asset classes runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy. The investment process of our investment funds involves a comprehensive due diligence approach, including review of reputation of shareholders and management, company size and sensitivity of cash flow generation, business sector and competitive risks, portfolio fit, exit risks and other key factors highlighted by the deal team. Key investment decisions are subject to approval by both the fund-level managing directors, as well as the investment committee, which is generally comprised of one or more of the three founding partners, one “sector” head, one or more operating executives and senior investment professionals associated with that particular fund. Once an investment in a portfolio company has been made, our fund teams closely monitor the performance of the portfolio company, generally through frequent contact with management and the receipt of financial and management reports. There was no material change in our market risks during the three months ended September 30, 2014. For additional information, refer to our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our co-principal executive officers and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives.

Our management, with the participation of our co-principal executive officers and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation and subject to the foregoing, our co-principal executive officers and principal financial officer concluded that, as of the end of the period covered by this report, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2014 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information required with respect to this item can be found under “Legal Matters” in Note 11, Commitments and Contingencies, of the notes to the Partnership’s unaudited condensed consolidated financial statements contained in this quarterly report, and such information is incorporated by reference into this Item 1.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, see the information under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013, which is accessible on the SEC’s website at sec.gov.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Required exhibits are listed in the Index to Exhibits and are incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Carlyle Group L.P.

By: Carlyle Group Management L.L.C.,
its general partner

Date: November 6, 2014

By: /s/ Curtis L. Buser
Name: Curtis L. Buser
Title: Interim Chief Financial Officer
(Principal Financial Officer and
Authorized Officer)

INDEX TO EXHIBITS

The following is a list of all exhibits filed or furnished as part of this report:

Exhibit No.	Description
3.1	Certificate of Limited Partnership of The Carlyle Group L.P. (incorporated by reference to Exhibit 3.1 to Registrant's Registration Statement on Form S-1 (File No. 333-176685) filed with the SEC on September 6, 2011).
3.2	Amended and Restated Limited Partnership Agreement of The Carlyle Group L.P. (incorporated by reference to Exhibit 3.1 on Form 8-K filed with the SEC on May 8, 2012).
31.1 *	Certification of the co-principal executive officer pursuant to Rule 13a – 14(a).
31.2 *	Certification of the co-principal executive officer pursuant to Rule 13a – 14(a).
31.3 *	Certification of the co-principal executive officer pursuant to Rule 13a – 14(a).
31.4 *	Certification of the principal financial officer pursuant to Rule 13a – 14(a).
32.1 *	Certification of the co-principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 *	Certification of the co-principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3 *	Certification of the co-principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.4 *	Certification of the principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
*	Filed herewith.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

