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THE CARLYLE GROUP

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GLOBAL ALTERNATIVE ASSET MANAGEMENT

## Update to Non-GAAP Reporting to Remove Economic Income

January 2019

# Important Information

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This presentation includes certain Non-GAAP financial measures, including Distributable Earnings (DE) and Fee Related Earnings (FRE). These Non-GAAP financial measures should be considered only as supplemental to, and not as superior to, financial measures prepared in accordance with GAAP. Please refer to our public filings for more details on the definition of these Non-GAAP terms.

## Overview

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- We have updated our non-GAAP reporting to simplify our reporting and align with the information used by management to operate our business.
- Distributable Earnings (DE), together with its principal components including Fee Related Earnings (FRE), is now the primary financial information used by our chief operating decision makers to make operational, compensation, and resource deployment decisions across our four reportable segments. Management also uses DE in our budgeting, forecasting, and the overall management of our segments.
- Accordingly, we will no longer report Economic Income (EI) or Economic Net Income (ENI) per unit. The elimination of EI and ENI per unit from our non-GAAP reporting does not change the historical definition of DE.
- The changes to remove EI and ENI per unit have no impact on our financial results calculated in accordance with U.S. GAAP.
- The following pages amend previously reported total segment data to reflect the change to remove the calculation and presentation of EI. All other non-GAAP financial information is consistent with what was previously reported.
- Also included in this presentation is a reconciliation of the non-GAAP financial measures to the most comparable U.S. GAAP financial measure, which has been updated solely to reflect the removal of EI.
- We will reflect these changes beginning with our Q4 2018 earnings release and Form 10-K for the year ended December 31, 2018. We believe these changes are consistent with what many current and potential unitholders of CG consider to be most important in evaluating our performance across periods. For historical comparative purposes, we plan to disclose Economic Income and ENI per unit on our Q4 2018 and year-end earnings call but will not do so in future periods.

## Overview (cont.)

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- As it relates to our underlying investment performance, we will continue to report the following information in our earnings releases and Forms 10-Q/10-K:
  - Carry fund appreciation/depreciation;
  - Net accrued performance revenues and the roll forward of net accrued performance revenues for the last twelve months; and
  - Key balance sheet highlights including balance sheet investments attributable to unitholders and related changes in value during the reporting period.

# Total Segment Information (Unaudited)

The following tables set forth information in the format used by management when making operational, compensation, and resource deployment decisions and in assessing the performance of our segments. The information below is the aggregate of our four segments.

|  | Year Ended            | Three Months Ended |                 |                 |                 | Year Ended        | Three Months Ended |                 |                 |                   | Year-to-Date |
|--|-----------------------|--------------------|-----------------|-----------------|-----------------|-------------------|--------------------|-----------------|-----------------|-------------------|--------------|
|  | Dec 31, 2016          | Mar 31, 2017       | Jun 30, 2017    | Sep 30, 2017    | Dec 31, 2017    | Dec 31, 2017      | Mar 31, 2018       | Jun 30, 2018    | Sep 30, 2018    | Sep 30, 2018      |              |
| <b>Total Segment Revenues</b>                        |                       |                    |                 |                 |                 |                   |                    |                 |                 |                   |              |
|  | (Dollars in millions) |                    |                 |                 |                 |                   |                    |                 |                 |                   |              |
| Fund level fee revenues                              |                       |                    |                 |                 |                 |                   |                    |                 |                 |                   |              |
| Fund management fees                                 | \$ 1,085.8            | \$ 255.6           | \$ 257.2        | \$ 278.4        | \$ 289.8        | \$ 1,081.0        | \$ 287.5           | \$ 328.1        | \$ 355.2        | \$ 970.8          |              |
| Portfolio advisory fees, net and other               | 29.4                  | 9.2                | 7.7             | 7.5             | 7.7             | 32.1              | 9.7                | 5.6             | 9.8             | 25.1              |              |
| Transaction fees, net                                | 31.2                  | 7.7                | 1.2             | 6.1             | 11.9            | 26.9              | 3.0                | 3.8             | -               | 6.8               |              |
| Total fee revenues                                   | 1,146.4               | 272.5              | 266.1           | 292.0           | 309.4           | 1,140.0           | 300.2              | 337.5           | 365.0           | 1,002.7           |              |
| Realized performance revenues                        | 1,215.8               | 83.0               | 352.7           | 411.0           | 238.6           | 1,085.3           | 211.0              | 99.5            | 260.2           | 570.7             |              |
| Realized principal investment income                 | 44.9                  | (5.4)              | 10.6            | (53.4)          | 22.4            | (25.8)            | 18.7               | 17.7            | 7.0             | 43.4              |              |
| Interest income                                      | 10.2                  | 3.4                | 2.4             | 5.4             | 5.5             | 16.7              | 6.7                | 7.9             | 9.1             | 23.7              |              |
| <b>Total Segment Revenues</b>                        | <b>\$ 2,417.3</b>     | <b>\$ 353.5</b>    | <b>\$ 631.8</b> | <b>\$ 655.0</b> | <b>\$ 575.9</b> | <b>\$ 2,216.2</b> | <b>\$ 536.6</b>    | <b>\$ 462.6</b> | <b>\$ 641.3</b> | <b>\$ 1,640.5</b> |              |
| <b>Total Segment Expenses</b>                        |                       |                    |                 |                 |                 |                   |                    |                 |                 |                   |              |
|  | (Dollars in millions) |                    |                 |                 |                 |                   |                    |                 |                 |                   |              |
| Compensation and benefits                            |                       |                    |                 |                 |                 |                   |                    |                 |                 |                   |              |
| Cash-based compensation and benefits                 | \$ 601.3              | \$ 147.3           | \$ 153.0        | \$ 177.3        | \$ 180.4        | \$ 658.0          | \$ 189.1           | \$ 172.3        | \$ 186.4        | \$ 547.8          |              |
| Realized performance revenues related compensation   | 590.5                 | 47.7               | 170.6           | 194.1           | 120.3           | 532.7             | 107.9              | 49.9            | 136.3           | 294.1             |              |
| Total compensation and benefits                      | 1,191.8               | 195.0              | 323.6           | 371.4           | 300.7           | 1,190.7           | 297.0              | 222.2           | 322.7           | 841.9             |              |
| General, administrative, and other indirect expenses | 483.5                 | 80.6               | 85.4            | (1.5)           | 94.4            | 258.9             | 74.8               | 98.9            | 80.9            | 254.6             |              |
| Depreciation and amortization expense                | 29.0                  | 7.5                | 7.5             | 8.2             | 7.9             | 31.1              | 8.1                | 8.5             | 8.7             | 25.3              |              |
| Interest expense                                     | 61.3                  | 15.0               | 16.4            | 17.0            | 17.1            | 65.5              | 17.8               | 18.5            | 19.0            | 55.3              |              |
| <b>Total Segment Expenses</b>                        | <b>\$ 1,765.6</b>     | <b>\$ 298.1</b>    | <b>\$ 432.9</b> | <b>\$ 395.1</b> | <b>\$ 420.1</b> | <b>\$ 1,546.2</b> | <b>\$ 397.7</b>    | <b>\$ 348.1</b> | <b>\$ 431.3</b> | <b>\$ 1,177.1</b> |              |
| <b>Total Segments</b>                                |                       |                    |                 |                 |                 |                   |                    |                 |                 |                   |              |
|  | (Dollars in millions) |                    |                 |                 |                 |                   |                    |                 |                 |                   |              |
| Total Segment Revenues                               | \$ 2,417.3            | \$ 353.5           | \$ 631.8        | \$ 655.0        | \$ 575.9        | \$ 2,216.2        | \$ 536.6           | \$ 462.6        | \$ 641.3        | \$ 1,640.5        |              |
| Total Segment Expenses                               | 1,765.6               | 298.1              | 432.9           | 395.1           | 420.1           | 1,546.2           | 397.7              | 348.1           | 431.3           | 1,177.1           |              |
| <b>Distributable Earnings</b>                        | <b>\$ 651.7</b>       | <b>\$ 55.4</b>     | <b>\$ 198.9</b> | <b>\$ 259.9</b> | <b>\$ 155.8</b> | <b>\$ 670.0</b>   | <b>\$ 138.9</b>    | <b>\$ 114.5</b> | <b>\$ 210.0</b> | <b>\$ 463.4</b>   |              |
| (-) Realized Net Performance Revenues                | 625.3                 | 35.3               | 182.1           | 216.9           | 118.3           | 552.6             | 103.1              | 49.6            | 123.9           | 276.6             |              |
| (-) Realized Principal Investment Income             | 44.9                  | (5.4)              | 10.6            | (53.4)          | 22.4            | (25.8)            | 18.7               | 17.7            | 7.0             | 43.4              |              |
| (+) Net Interest                                     | 51.1                  | 11.6               | 14.0            | 11.6            | 11.6            | 48.8              | 11.1               | 10.6            | 9.9             | 31.6              |              |
| <b>(=) Fee Related Earnings</b>                      | <b>\$ 32.6</b>        | <b>\$ 37.1</b>     | <b>\$ 20.2</b>  | <b>\$ 108.0</b> | <b>\$ 26.7</b>  | <b>\$ 192.0</b>   | <b>\$ 28.2</b>     | <b>\$ 57.8</b>  | <b>\$ 89.0</b>  | <b>\$ 175.0</b>   |              |

# Reconciliation of GAAP to Non-GAAP Financial Information (Unaudited)

The following table is a reconciliation of Income Before Provision for Income Taxes to Distributable Earnings and Fee Related Earnings.

|   | Year Ended            | Three Months Ended |                 |                 |                 | Year Ended      | Three Months Ended |                 |                 | Year-to-Date    |
|---|-----------------------|--------------------|-----------------|-----------------|-----------------|-----------------|--------------------|-----------------|-----------------|-----------------|
|   | Dec 31,<br>2016       | Mar 31,<br>2017    | Jun 30,<br>2017 | Sep 30,<br>2017 | Dec 31,<br>2017 | Dec 31,<br>2017 | Mar 31,<br>2018    | Jun 30,<br>2018 | Sep 30,<br>2018 | Sep 30,<br>2018 |
|   | (Dollars in millions) |                    |                 |                 |                 |                 |                    |                 |                 |                 |
| <b>Income before provision for income taxes</b>             | \$ 45.3               | \$ 327.7           | \$ 243.7        | \$ 165.9        | \$ 395.0        | \$ 1,132.3      | \$ 125.5           | \$ 252.8        | \$ 60.6         | \$ 438.9        |
| Adjustments:  |                       |                    |                 |                 |                 |                 |                    |                 |                 |                 |
| Net unrealized performance revenues                         | 231.6                 | (358.8)            | (117.3)         | 69.9            | (219.0)         | (625.2)         | (56.9)             | (200.0)         | 54.6            | (202.3)         |
| Unrealized principal investment income                      | (5.4)                 | (16.0)             | (20.6)          | (18.1)          | (18.3)          | (73.0)          | (10.9)             | (7.6)           | (6.9)           | (25.4)          |
| Equity-based compensation <sup>(1)</sup>                    | 343.0                 | 97.1               | 95.2            | 88.7            | 84.1            | 365.1           | 87.8               | 68.4            | 52.0            | 208.2           |
| Acquisition related charges and amortization of intangibles | 94.2                  | 8.8                | 9.2             | 7.2             | 10.5            | 35.7            | 4.6                | 9.2             | 2.4             | 16.2            |
| Other non-operating (income) / expenses                     | (11.2)                | -                  | 0.1             | -               | (71.5)          | (71.4)          | 0.3                | 0.3             | 0.3             | 0.9             |
| Tax provision associated with performance revenues          | (15.1)                | (2.9)              | (2.4)           | (1.7)           | (2.2)           | (9.2)           | (2.1)              | 3.8             | (12.7)          | (11.0)          |
| Net income attributable to non-controlling interests in     |                       |                    |                 |                 |                 |                 |                    |                 |                 |                 |
| Consolidated entities                                       | (41.0)                | (3.3)              | (16.5)          | (27.6)          | (25.1)          | (72.5)          | (11.0)             | (16.7)          | (14.5)          | (42.2)          |
| Reserve for litigation and contingencies                    | -                     | -                  | -               | (25.0)          | -               | (25.0)          | -                  | -               | -               | -               |
| Lease assignment and termination costs                      | -                     | -                  | -               | -               | -               | -               | -                  | 3.4             | 63.5            | 66.9            |
| Debt extinguishment costs                                   | -                     | -                  | -               | -               | -               | -               | -                  | -               | 7.8             | 7.8             |
| Severance and other adjustments                             | 10.3                  | 2.8                | 7.5             | 0.6             | 2.3             | 13.2            | 1.6                | 0.9             | 2.9             | 5.4             |
| <b>Distributable Earnings</b>                               | <u>\$ 651.7</u>       | <u>\$ 55.4</u>     | <u>\$ 198.9</u> | <u>\$ 259.9</u> | <u>\$ 155.8</u> | <u>\$ 670.0</u> | <u>\$ 138.9</u>    | <u>\$ 114.5</u> | <u>\$ 210.0</u> | <u>\$ 463.4</u> |
| (-) Realized Net Performance Revenues                       | 625.3                 | 35.3               | 182.1           | 216.9           | 118.3           | 552.6           | 103.1              | 49.6            | 123.9           | 276.6           |
| (-) Realized Principal Investment Income                    | 44.9                  | (5.4)              | 10.6            | (53.4)          | 22.4            | (25.8)          | 18.7               | 17.7            | 7.0             | 43.4            |
| (+) Net Interest  | 51.1                  | 11.6               | 14.0            | 11.6            | 11.6            | 48.8            | 11.1               | 10.6            | 9.9             | 31.6            |
| <b>(=) Fee Related Earnings</b>                             | <u>\$ 32.6</u>        | <u>\$ 37.1</u>     | <u>\$ 20.2</u>  | <u>\$ 108.0</u> | <u>\$ 26.7</u>  | <u>\$ 192.0</u> | <u>\$ 28.2</u>     | <u>\$ 57.8</u>  | <u>\$ 89.0</u>  | <u>\$ 175.0</u> |

(1) Equity-based compensation for the three and nine months ended September 30, 2018 includes \$2.3 million and \$8.7 million, respectively, which is included in principal investment income and general, administrative and other expenses in our U.S. GAAP statement of operations. Equity-based compensation for the three and nine months ended September 30, 2018 also includes \$0.3 million and \$68.8 million, respectively, related to units issued in conjunction with IPO, acquisitions and strategic investments.