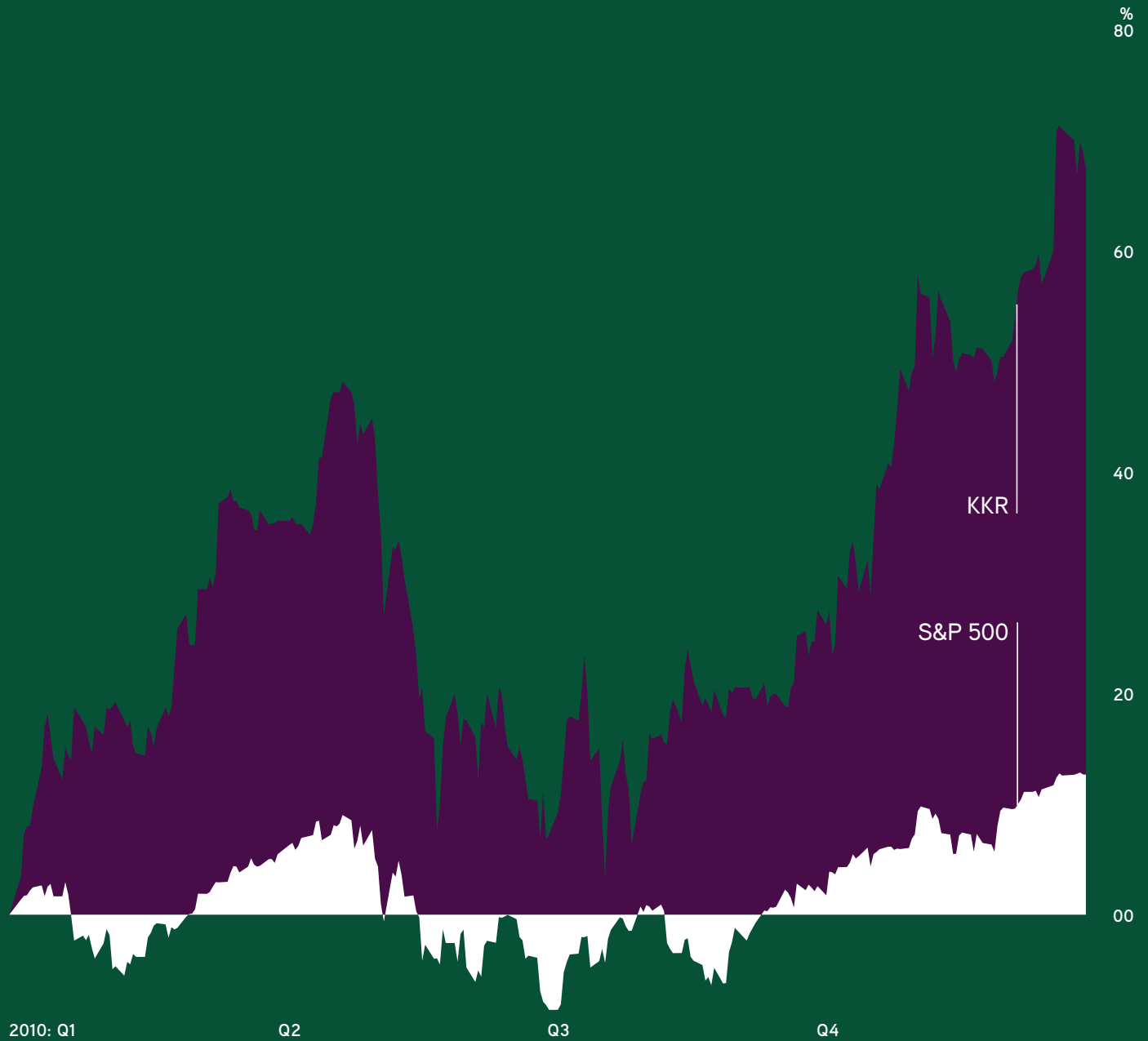
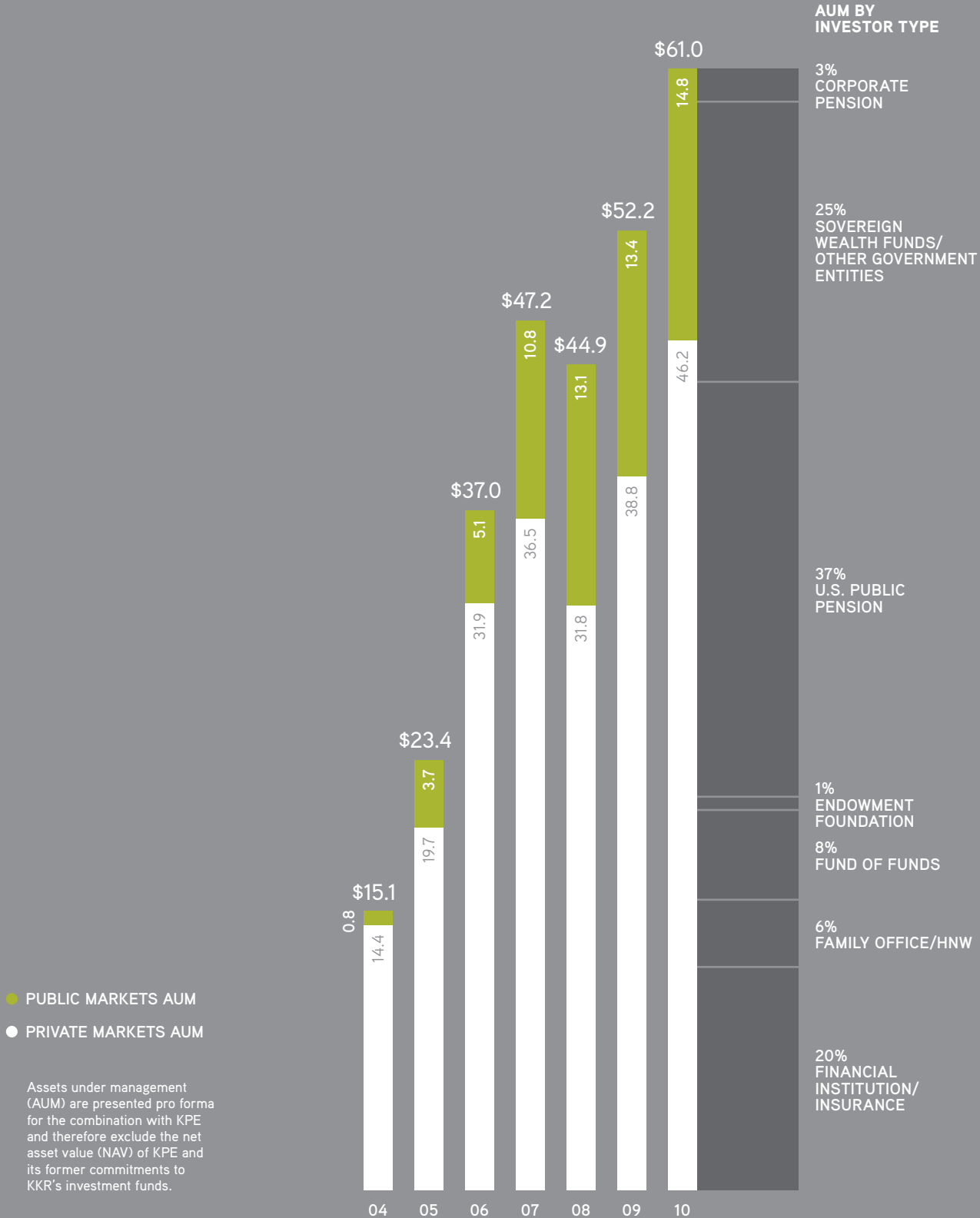


KKR's unit price appreciated  
by 72% during 2010, compared  
to 15% for the S&P 500

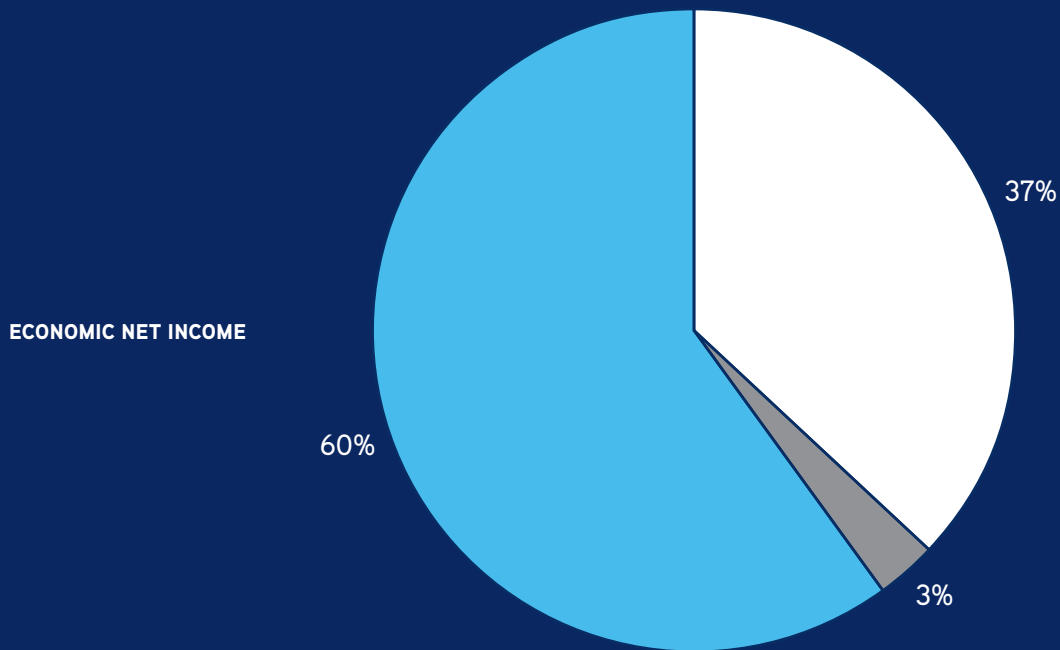
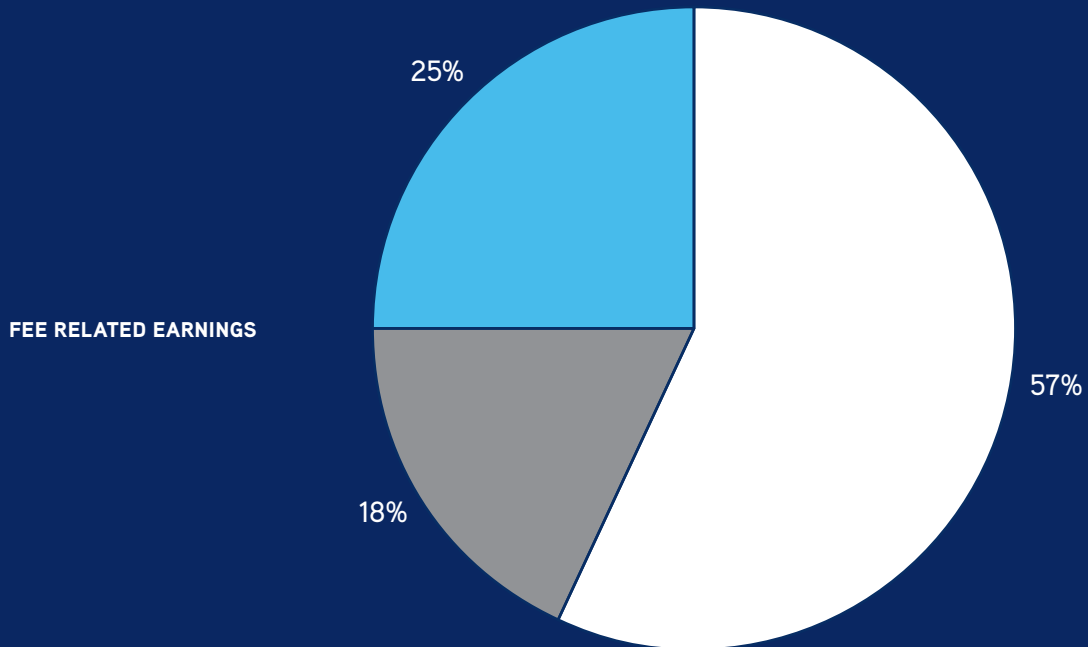


# Cross-asset class capabilities built on a solid foundation of organic AUM growth and strong relationships

DOLLARS IN BILLIONS



# Significant earnings power derived from an increasingly diversified business



- PRIVATE MARKETS
- PUBLIC MARKETS
- CAPITAL MARKETS & PRINCIPAL ACTIVITIES

# Driving Growth...

Private Markets: Aggregate Private Equity  
Portfolio Company 2010 Performance

REVENUE **+7%** to **\$204b**

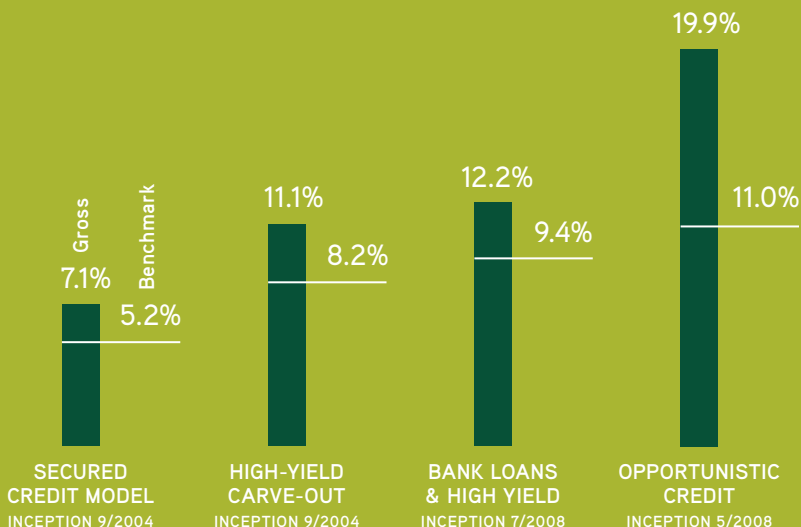
EBITDA **+15%** to **\$38b**

# Driving Returns...

Public Markets: Liquid Credit Strategy  
Inception-to-Date Annualized Returns

References to gross returns do not take into consideration the payment of applicable fees and expenses. Consequently, net returns would be lower.

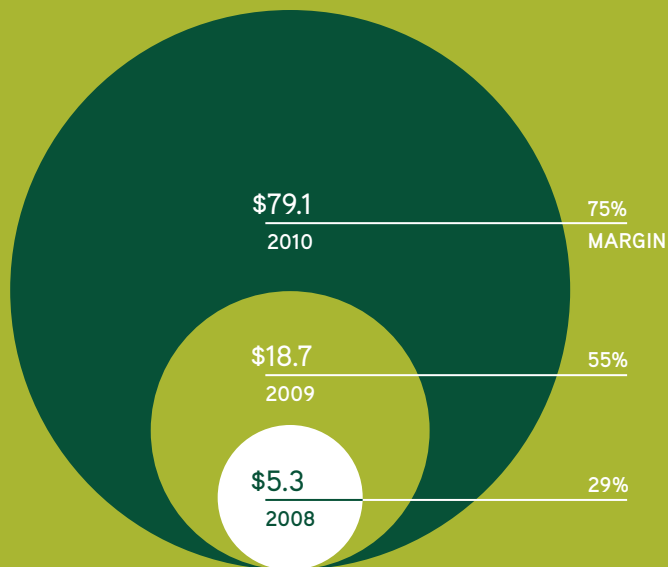
See our Annual Report on Form 10-K for important information regarding each benchmark.



# Building Businesses...

Capital Markets: Fee Related Earnings  
Performance

DOLLARS IN MILLIONS



# Building Value

## Book Value per Unit

IN DOLLARS



Adjusted units represent the fully diluted unit count using the if-converted method. Adjusted units are not presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). See Appendix I (p. 98) for a reconciliation of such measures to financial results prepared in accordance with GAAP.

# Consolidated Financial Review

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

The following discussion and analysis is an excerpt from our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 7, 2011. The following discussion and analysis is presented only with respect to the year ended December 31, 2010, and it has not been updated. For current information, please refer to our other reports filed with the SEC subsequent to March 7, 2011.

The following discussion and analysis should be read in conjunction with the consolidated and combined financial statements of KKR & Co. L.P., together with its consolidated subsidiaries, and the related notes included elsewhere in this report. The historical consolidated and combined financial data discussed below reflects the historical results and financial position of KKR for the year ended December 31, 2010. In addition, this discussion and analysis contains forward looking statements and involves numerous risks and uncertainties, including those described under "Cautionary Note Regarding Forward Looking Statements" in this report and "Risk Factors" in our Annual Report on Form 10-K and our other reports filed with the SEC. Actual results may differ materially from those contained in any forward looking statements.

## OVERVIEW

Led by Henry Kravis and George Roberts, we are a leading global investment firm with \$61.0 billion in AUM as of December 31, 2010 and a 34-year history of leadership, innovation and investment excellence. When our founders started our firm in 1976, they established the principles that guide our business approach today, including a patient and disciplined investment process; the alignment of our interests with those of our investors, portfolio companies and other stakeholders; and a focus on attracting world class talent.

Our business offers a broad range of investment management services to our investors and provides capital markets services to our firm, our portfolio companies and our clients. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 185 private equity investments with a total transaction value in excess of \$435 billion. In recent years, we have grown our firm by expanding our geographical presence and building businesses in new areas, such as fixed income, capital markets, infrastructure and natural resources. Our new efforts build on our core principles and industry expertise, allowing us to leverage the intellectual capital and synergies in our businesses, and to capitalize on a broader range of the opportunities we source. Additionally, we have increased our focus on servicing our existing investors and have invested meaningfully in developing relationships with new investors.

We conduct our business through 14 offices on four continents, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. We have grown our AUM significantly, from \$15.1 billion as of December 31, 2004 to \$61.0 billion as of December 31, 2010, representing a compounded annual growth rate of 26.1%. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

As a global investment firm, we earn management, monitoring, transaction and incentive fees for providing investment management, monitoring and other services to our funds, vehicles, managed accounts, specialty finance company and portfolio companies, and we generate transaction-specific income from capital markets transactions. We earn additional investment income from investing our own capital alongside that of our investors and from the carried interest we receive from our funds and certain of our other investment vehicles. A carried interest entitles the sponsor of a fund to a specified percentage of investment gains that are generated on third-party capital that is invested.

We seek to consistently generate attractive investment returns by employing world-class people, following a patient and disciplined investment approach and driving growth and value creation in the assets we manage. Our investment teams have deep industry knowledge and are supported by a substantial and diversified capital base, an integrated global investment platform, the expertise of operating consultants and senior advisors and a worldwide network of business relationships that provide a significant source of investment opportunities, specialized knowledge during due diligence and substantial resources for creating and realizing value for stakeholders. We believe that these aspects of our business will help us continue to expand and grow our business and deliver strong investment performance in a variety of economic and financial conditions.

## BUSINESS SEGMENTS

### Private Markets

Through our Private Markets segment, we manage and sponsor a group of private equity funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. These investment funds and co-investment vehicles are managed by Kohlberg Kravis Roberts & Co. L.P., a registered investment adviser. We also manage investments in infrastructure and in natural resources.

### Public Markets

Through our Public Markets segment, we manage a specialty finance company, a number of investment funds, structured finance vehicles and separately managed accounts that invest capital in liquid credit strategies, such as leveraged loans and high yield bonds, and less liquid credit products such as mezzanine debt and special situations investments. These funds, vehicles and accounts are managed by KKR Asset Management LLC (which we refer to as "KAM"), an SEC registered investment adviser. We intend to continue to grow this business by leveraging our global investment platform, experienced investment professionals and the ability to adapt our investment strategies to different market conditions to capitalize on investment opportunities that may arise at every level of the capital structure and across market cycles.

### Capital Markets and Principal Activities

Our Capital Markets and Principal Activities segment combines the assets we acquired in the Combination Transaction with our global capital markets business. Our capital markets business supports our firm, our portfolio companies and our clients by providing tailored capital markets advice and developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing. Our capital markets services include arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets services. To allow us to carry out these activities, we are registered or authorized to carry out certain broker-dealer activities in various countries in North America, Europe and Asia.

The assets that we acquired in the Combination Transaction<sup>(1)</sup>, which include investments in our private equity funds and co-investments in certain portfolio companies of such funds, provide us with a significant source of capital to further grow and expand our business, increase our participation in our existing portfolio of businesses and further align our interests with those of our investors and other stakeholders. We believe that the market experience and skills of professionals in our capital markets business and the investment expertise of professionals in our Private Markets and Public Markets segments will allow us to continue to grow and diversify this asset base over time.

## BUSINESS ENVIRONMENT

As a global investment firm, we are affected by financial and economic conditions in the United States, Europe, Asia and elsewhere in the world. Global equity markets have a substantial effect on our financial condition and results of operations, as equity prices significantly impact the valuation of our portfolio companies and, therefore, the investment income that we recognize. For our private equity investments that are publicly listed and thus have readily observable market prices, global equity markets have a direct impact on valuation. For other private equity investments, these markets have an indirect impact on valuation as we typically utilize a market multiples valuation approach as one of the methodologies to ascertain fair value. In addition, the receptivity of equity markets to initial public offerings, or IPOs, as well as subsequent equity offerings by companies already public, impacts our ability to realize investment gains. During 2010, we completed IPOs of three portfolio companies: NXP Semiconductors N.V. (Nasdaq: NXPI), China Modern Dairy Holdings Ltd. (HKG: 1117), and TDC (OMX: TDC).

Global equity markets carried positive momentum from the third quarter of 2010 through the end of the year. Against a stronger, yet still mixed economic backdrop, equity prices rallied as robust corporate earnings and improving investor sentiment outweighed concerns over lingering weak economic indicators such as unemployment and housing prices.

The S&P 500 gained 10.8% in the fourth quarter and finished 2010 up 15.1% for the full year. Global equity markets were similarly strong, with the MSCI World Index up 9.1% and 12.3% for the fourth quarter and full year 2010, respectively. The below investment grade credit markets also performed well, with the S&P/LSTA Leveraged Loan index increasing 3.2% and 10.1% for the fourth quarter and full year 2010, respectively, and the BofA Merrill Lynch High Yield Master II Index increasing 3.1% and 15.2% over the same periods.

Conditions in global credit markets also have a substantial effect on our financial condition and results of operations. We rely on the ability of our funds to obtain committed debt financing on favorable terms in order to complete new private equity transactions. Similarly, our portfolio companies regularly require access to the global credit markets in order to obtain financing for their operations and to refinance or extend the maturities of their outstanding indebtedness. To the extent that conditions in the credit markets render such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, our investment returns on our funds. In addition, during economic downturns or periods of slow economic growth, the inability to refinance or extend the maturities of portfolio company debt (and thereby extend our investment

holding period) can be significant to our ability to realize investment gains from these portfolio companies when economic conditions improve.

Our Public Markets segment manages a number of funds and other accounts that invest capital in a variety of credit products, including leveraged loans, high yield bonds and mezzanine debt. As a result, conditions in global credit markets have a direct impact on both the performance of these investments as well as the ability to make additional investments on favorable terms in the future.

In addition, our Capital Markets and Principal Activities segment generates fees through a variety of activities in connection with the issuance and placement of equity and debt securities and credit facilities, with the size of fees generally correlated to overall transaction sizes. As a result, the conditions in global equity and credit markets impacts both the frequency and size of fees generated by this segment.

Finally, conditions in commodity markets may impact the performance of our portfolio companies in a variety of ways, including through direct or indirect impact on the cost of the inputs used in their operations as well as the pricing and profitability of the products or services that they sell.

## REORGANIZATION AND COMBINATION TRANSACTIONS

Prior to October 1, 2009, KKR's business was conducted through multiple entities for which there was no single holding entity, but were under common control of senior KKR principals ("Senior Principals"), and in which Senior Principals and KKR's other principals and individuals held ownership interests (collectively, the "Predecessor Owners").

In order to facilitate the Combination Transaction, KKR completed the Reorganization Transactions, pursuant to which KKR's business was reorganized under two partnerships, KKR Management Holdings L.P. and KKR Fund Holdings L.P., which are collectively referred to as the "KKR Group Partnerships." The reorganization involved a contribution of certain equity interests in KKR's businesses that were held by KKR's Predecessor Owners to the KKR Group Partnerships in exchange for 100% of the interests in the KKR Group Partnerships.

On October 1, 2009, KKR & Co. L.P. and KKR Private Equity Investors, L.P. ("KPE"), completed the Combination Transaction to combine the investment management business of KKR with the assets and liabilities of KPE. The Combination Transaction involved the contribution of all of KPE's assets and liabilities to the KKR Group Partnerships in exchange for a 30% interest in the KKR Group Partnerships. Upon completion of the Combination Transaction, KPE changed its name to KKR & Co. (Guernsey) L.P. ("KKR Guernsey") and was traded publicly on Euronext Amsterdam under the symbol "KKR" until the NYSE listing on July 15, 2010. We refer to the Reorganization Transaction and Combination Transaction together as the "Transactions."

Immediately following the Transactions, KKR Guernsey held a 30% economic interest in the KKR Group Partnerships through KKR Group Holdings L.P. ("Group Holdings") and our principals retained a 70% economic interest in the KKR Group Partnerships through KKR Holdings L.P. ("KKR Holdings").

## U.S. LISTING

On July 15, 2010, KKR & Co. L.P. became listed on the New York Stock Exchange ("NYSE"). In connection with the NYSE listing, KKR Guernsey contributed its 30% interest held through Group Holdings to KKR & Co. L.P. in exchange for NYSE-listed common units of KKR & Co. L.P. and distributed those common units to holders of KKR Guernsey units (referred to hereafter as the "In-Kind Distribution"). Because the assets of KKR Guernsey consisted solely of its interests in Group Holdings, the In-Kind Distribution resulted in the dissolution of KKR Guernsey and the delisting of its units from Euronext Amsterdam.

(1) On October 1, 2009, we completed the acquisition of all of the assets and liabilities of KKR Guernsey and, in connection with such acquisition, completed a series of transactions pursuant to which the business of KKR was reorganized into a holding company structure. We refer to the acquisition of the assets and liabilities of KKR Guernsey as the "Combination Transaction," to our reorganization into a holding company structure as the "Reorganization Transactions" and to the Combination Transaction and the Reorganization Transactions collectively as the "Transactions." Our financial information for periods prior to the Transactions is, for accounting purposes, based on a group of certain combined and consolidated entities under common control of our senior principals and under the common ownership of our principals and certain other individuals who have been involved in our business, and our financial information for periods subsequent to the Transactions is, for accounting purposes, based on a group consisting of KKR & Co. L.P. and its consolidated subsidiaries.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As of July 15, 2010, KKR & Co. L.P. both indirectly controlled the KKR Group Partnerships and indirectly held KKR Group Partnership units representing at that time a 30% economic interest in KKR's business. The remaining 70% of the KKR Group Partnership units were held by KKR's principals through KKR Holdings. Subsequent to the NYSE listing, KKR Holdings and our principals exchanged a portion of their interests in the KKR Group Partnerships for common units, and as of December 31, 2010, KKR & Co. L.P. owned 31.15% of the KKR Group Partnership units and our principals owned 68.85% through KKR Holdings. From time to time, the percentage ownership in the KKR Group Partnerships may continue to change as KKR Holdings and/or KKR's principals exchange KKR Group Partnership Units for KKR & Co. L.P. common units.

### BASIS OF FINANCIAL PRESENTATION

The consolidated and combined financial statements include the accounts of our management and capital markets companies, the general partners of certain unconsolidated co-investment vehicles and the general partners of our private equity and fixed income funds and their respective consolidated funds, where applicable. As of December 31, 2010, our private markets segment included eight consolidated investment funds and ten unconsolidated co-investment vehicles. Our public markets segment included five consolidated investment funds and six unconsolidated vehicles comprised of three investment funds, two separately managed accounts and one specialty finance company.

In accordance with accounting principles generally accepted in the United States of America ("GAAP"), a substantial number of our funds are consolidated notwithstanding the fact that we hold only a minority economic interest in those funds. The majority of our consolidated funds consist of those funds in which we hold a general partner or managing member interest that gives us substantive controlling rights over such funds. With respect to our consolidated funds, we generally have operational discretion and control over the funds and investors do not hold any substantive rights that would enable them to impact the funds' ongoing governance and operating activities.

When a fund is consolidated, we reflect the assets, liabilities, fees, expenses, investment income and cash flows of the consolidated fund on a gross basis. The majority of the economic interests in the consolidated fund, which are held by third party investors, are reflected as noncontrolling interests. While the consolidation of a consolidated fund does not have an effect on the amounts of net income attributable to KKR or KKR's partners' capital that KKR reports, the consolidation does significantly impact the financial statement presentation. This is due to the fact that the assets, liabilities, fees, expenses and investment income of the consolidated funds are reflected on a gross basis while the allocable share of those amounts that are attributable to noncontrolling interests are reflected as single line items. The single line items in which the assets, liabilities, fees, expenses and investment income attributable to noncontrolling interests are recorded are presented as noncontrolling interests in consolidated entities on the statements of financial condition and net income attributable to noncontrolling interests in consolidated entities on the statements of operations.

Historically, the noncontrolling interests attributable to the ownership of KPE's investment partnership, KKR PEI Investments, L.P., by KPE were included in our financial statements. These noncontrolling interests were removed from the financial statements on October 1, 2009, because these interests were contributed to KKR in the Transactions. Subsequent to the Transactions, KKR holds 100% of the economic and controlling interests in KPE's investment partnership. Therefore, we continue to consolidate KPE's investment partnership and its economic interests are no longer reflected as noncontrolling interests as of the date of the Transactions.

## KEY FINANCIAL MEASURES

### Fees

Fees consist primarily of (i) monitoring and transaction fees from providing advisory and other services to our portfolio companies, (ii) management and incentive fees from providing investment management services to unconsolidated funds, a specialty finance company, structured finance vehicles, and separately managed accounts, and (iii) fees from capital markets activities. These fees are based on the contractual terms of the governing agreements. A substantial portion of monitoring and transaction fees earned in connection with managing portfolio companies are shared with fund investors.

Fees reported in our consolidated and combined financial statements do not include the management fees that we earn from consolidated funds, because those fees are eliminated in consolidation. However, because those management fees are earned from, and funded by, third-party investors who hold noncontrolling interests in the consolidated funds, net income attributable to KKR is increased by the amount of the management fees that are eliminated in consolidation. Accordingly, while the consolidation of funds impacts the amount of fees that are recognized in our financial statements, it does not affect the ultimate amount of net income attributable to KKR or KKR's partners' capital.

### Expenses

#### Employee Compensation and Benefits Expense

Employee compensation and benefits expense includes salaries, bonuses, equity based compensation and profit sharing plans as described below.

Prior to October 1, 2009, our employee compensation and benefits expense has consisted of base salaries and bonuses paid to employees who were not our Senior Principals. Payments made to our Senior Principals included partner distributions that were paid to our Senior Principals and accounted for as capital distributions rather than employee compensation and benefits expense. Accordingly, we did not record any employee compensation and benefits charges for payments made to our Senior Principals for periods prior to the completion of the Transactions.

Following the completion of the Transactions, all of our Senior Principals and other personnel receive a base salary that is paid by us and accounted for as employee compensation and benefits expense. Our employees are also eligible to receive discretionary cash bonuses based on performance, our overall profitability and other matters. While cash bonuses paid to most employees are funded by us and result in customary employee compensation and benefits charges, cash bonuses that are paid to certain of our most senior personnel are funded by KKR Holdings with distributions that it receives on its KKR Group Partnership Units. Any distributions received by KKR Holdings in excess of amounts that principals are otherwise entitled to through their vested interests in KKR Holdings are reflected in compensation expense in the statement of operations. KKR Holdings has also funded all of the equity and equity based awards that have been granted to our employees to the date of the filing of our Annual Report on Form 10-K.

In connection with and subsequent to the Transactions, our principals and other employees received equity and equity based awards in KKR Holdings. The awards were granted in connection with the Transactions and were issued in exchange for interests that our Predecessor Owners contributed to our holding companies as part of the Transactions as well as to promote broad ownership of our firm among our personnel and further align their interests with those of our investors. We believe that grants to our principals and other employees, which include vested and unvested interests in the KKR Group Partnerships, provide an additional means for allowing us to incentivize, motivate and retain qualified professionals that will help us continue to grow our business over the long-term.

While we do not bear the economic costs associated with the equity and equity based grants that KKR Holdings has made to our personnel or the cash bonuses that it pays to any of our principals with distributions received on its KKR Group Partnership Units, we are required to recognize employee compensation and benefits expense with respect to a significant portion of these items. Because these amounts are funded by KKR Holdings and not by us, these expenses represent non-cash charges for us and do not impact our distributable earnings.

We recognize non-cash charges relating to equity and equity based grants that are funded by KKR Holdings based on the grant-date fair value of the award. Awards that do not require the satisfaction of future service or performance criteria (vested awards) are expensed immediately. Awards that require the satisfaction of future service or performance criteria are expensed over the relevant service period, adjusted for the lack of distribution participation and estimated forfeitures of awards not expected to vest. We expect to record additional non-cash charges in future periods as and when interests in KKR Holdings vest and when new equity is granted.

In addition, we are permitted to allocate to our principals, other professionals and selected other individuals a portion of the carried interest that we earn from our current and future funds that provide for carried interest payments. As and when investment income is recognized with respect to this carried interest, we record a corresponding amount of employee compensation and benefits expense.

#### **General, Administrative and Other Expense**

General, administrative and other expense consists primarily of professional fees paid to legal advisors, accountants, advisors and consultants, insurance costs, travel and related expenses, communications and information services, depreciation and amortization charges and other general and operating expenses.

In addition, interests in KKR Holdings were granted to our operating consultants in connection with and subsequent to the Transactions. The vesting of these interests gives rise to periodic general, administrative and other expense in the statements of operations. General, administrative and other expense recognized on unvested units is calculated based on the fair value of an interest in KKR Holdings (determined using the closing price of KKR's common units) on each reporting date and subsequently adjusted for the actual fair value of the award at each vesting date. Accordingly, the measured value of these interests will not be finalized until each vesting date. Additionally, the calculation of the compensation expense considers estimated forfeitures of awards not expected to vest.

While we do not bear the economic costs associated with the equity and equity based grants that KKR Holdings has made to our operating consultants, we are required to recognize general, administrative and other expense with respect to a significant portion of these items. Because these amounts are funded by KKR Holdings and not by us, these expenses represent non-cash charges for us and do not impact our distributable earnings.

General, administrative and other expense is not borne by fund investors and is not offset by credits attributable to fund investors' noncontrolling interests in consolidated funds.

#### **Fund Expenses**

Fund expenses consist primarily of costs incurred in connection with pursuing potential investments that do not result in completed transactions (such as travel expenses, professional fees and research costs) and other costs associated with administering our private equity funds. A substantial portion of fund expenses are borne by fund investors.

#### **Investment Income (Loss)**

##### **Net Gains (Losses) from Investment Activities**

Net gains (losses) from investment activities consist of realized gains and losses and unrealized gains and losses arising from our investment activities. The majority of our net gains (losses) from investment

activities are related to our private equity investments. Fluctuations in net gains (losses) from investment activities between reporting periods is driven primarily by changes in the fair value of our investment portfolio as well as the realization of investments. The fair value of, as well as the ability to recognize gains from, our private equity investments is significantly impacted by the global equity markets, which, in turn, affects the net gains (losses) from investment activities recognized in any given period. Upon the disposition of an investment, previously recognized unrealized gains and losses are reversed and an offsetting realized gain or loss is recognized in the current period. Since our investments are carried at fair value, fluctuations between periods could be significant due to changes to the inputs to our valuation process over time. For a further discussion of our fair value measurements and fair value of investments, see "—Critical Accounting Policies—Fair Value of Investments."

##### **Dividend Income**

Dividend income consists primarily of distributions that private equity funds receive from portfolio companies in which they invest. Private equity funds recognize dividend income primarily in connection with (i) dispositions of operations by portfolio companies, (ii) distributions of excess cash generated from operations from portfolio companies and (iii) other significant refinancings undertaken by portfolio companies.

##### **Interest Income**

Interest income consists primarily of interest that is received on our cash balances, principal assets and fixed income instruments in which consolidated funds invest.

##### **Interest Expense**

Interest expense is incurred from credit facilities entered into by KKR, Senior Notes issued by KKR, and debt outstanding at our consolidated funds entered into with the objective of enhancing returns, which are not direct obligations of the general partners of our private equity funds or management companies. In addition to these interest costs, we capitalize debt financing costs incurred in connection with new debt arrangements. Such costs are amortized into interest expense using either the interest method or the straight-line method, as appropriate.

##### **Income Taxes**

Prior to the completion of the Transactions, we operated as a partnership for U.S. federal income tax purposes and mainly as a corporate entity in non-U.S. jurisdictions. As a result, income was not subject to U.S. federal and state income taxes. Historically, the tax liability related to income earned by us represented obligations of our principals and has not been reflected in the historical financial statements. Income taxes shown on the statements of operations prior to the Transactions are attributable to the New York City unincorporated business tax and other income taxes on certain entities located in non-U.S. jurisdictions.

Following the Transactions, the KKR Group Partnerships and certain of their subsidiaries have continued to operate in the United States as partnerships for U.S. federal income tax purposes and as corporate entities in non-U.S. jurisdictions. Accordingly, these entities, in some cases, continue to be subject to New York City unincorporated business taxes, or non-U.S. income taxes. However, we hold our interest in one of the KKR Group Partnerships through KKR Management Holdings Corp., which is treated as a corporation for U.S. federal income tax purposes, and certain other wholly owned subsidiaries of the KKR Group Partnerships are treated as corporations for U.S. federal income tax purposes. Accordingly, such wholly owned subsidiaries of KKR, including KKR Management Holdings Corp., and the KKR Group Partnerships, are subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to KKR's share of this income is reflected in the financial statements.

Subsequent to the Transactions, we use the liability method to account for income taxes in accordance with GAAP. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions including evaluating uncertainties. We review our tax positions quarterly and adjust our tax balances as new information becomes available.

### Net Income (Loss) Attributable to Noncontrolling Interests

Net income (loss) attributable to noncontrolling interests represents the ownership interests that third parties hold in entities that are consolidated in the financial statements. The allocable share of income and expense attributable to those interests is accounted for as net income (loss) attributable to noncontrolling interests. Historically, the amount of net income (loss) attributable to noncontrolling interests has been substantial and has resulted in significant charges and credits in the statements of operations. For periods prior to the Transactions, noncontrolling interests consisted primarily of:

- noncontrolling interests that third party investors held in consolidated funds;
- noncontrolling interests attributable to the ownership of KPE's investment partnership by KPE's unitholders;
- a noncontrolling interest that allocated to a third party an aggregate of approximately 2% of the equity in our capital markets business; and
- noncontrolling interests that allocated 35% of the net income (loss) generated by the manager of our Public Markets segment to certain of its principals on an annual basis through May 30, 2008.

On May 30, 2008, we acquired all outstanding noncontrolling interests of KKR Asset Management LLC, the manager of our Public Markets segment, and now own 100% of this business. In connection with the Transactions, we acquired all outstanding noncontrolling interests in KPE's investment partnership, which is a wholly owned subsidiary of KKR.

For periods subsequent to the completion of the Transactions, noncontrolling interests include:

- noncontrolling interests that third party investors hold in consolidated funds;
- a noncontrolling interest that allocates to a third party approximately of approximately 2% of the equity in our capital markets business;
- noncontrolling interests that allocate to a former principal and such person's designees an aggregate of 1% of the carried interest received by general partners of our funds and 1% of our other profits until a future date;
- noncontrolling interests that allocate to certain of our former principals and their designees a portion of the carried interest received by the general partners of the private equity funds with respect to private equity investments made during such former principals' tenure with us;
- noncontrolling interests that allocate to certain of our current and former principals all of the capital invested by or on behalf of the general partners of the private equity funds before the completion of the Transactions and any returns thereon; and
- noncontrolling interests representing the KKR Group Partnership Units that KKR Holdings holds in the KKR Group Partnerships, which interests were allocated on October 1, 2010 to KKR Holdings representing 70% of the equity in the KKR Group Partnerships at that time.

### Assets Under Management ("AUM")

AUM represents the assets from which KKR is entitled to receive fees or carried interest and general partner capital. The AUM reported prior to the date of consummation of the Transactions reflected the NAV of KPE and its commitments to our investment funds. Subsequent to the Transactions, the NAV of KPE and its commitments to our investment funds are excluded from our calculation of AUM. KKR calculates the amount of AUM as of any date as the sum of: (i) the fair value of the investments of KKR's investment funds plus uncalled capital commitments from these funds; (ii) the fair value of investments in KKR's co-investment vehicles; (iii) the net asset value of certain of KKR's fixed income products; and (iv) the value of outstanding structured finance vehicles. You should note that KKR's calculation of AUM may differ from the calculations of other investment managers and, as a result, its measurements of AUM may not be comparable to similar measures presented by other investment managers. KKR's definition of AUM is not based on any definition of AUM that is set forth in the agreements governing the investment funds, vehicles or accounts that it manages.

### Fee Paying Assets Under Management ("FPAUM")

FPAUM represents only those assets under management from which KKR receives fees. FPAUM reported prior to the Transactions reflected the NAV of KPE. Subsequent to the Transactions, the NAV of KPE is excluded from our calculation of FPAUM, because these assets are now owned by us and are no longer managed on behalf of a third-party investor. FPAUM is the sum of all of the individual fee bases that are used to calculate KKR's fees and differs from AUM in the following respects: (i) assets from which KKR does not receive a fee are excluded (i.e., assets with respect to which it receives only carried interest); and (ii) certain assets, primarily in its private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments. You should note that KKR's calculation of FPAUM may differ from the calculations of other investment managers and, as a result, its measurements of FPAUM may not be comparable to similar measures presented by other investment managers. KKR's definition of FPAUM is not based on any definition of FPAUM that is set forth in the agreements governing the investment funds, vehicles or accounts that it manages.

### Segment Results

We present the results of our reportable business segments in accordance with FASB Accounting Standards Codification Section 280, Segment Reporting. This guidance is based on a management approach, which requires segment presentation based on internal organization and the internal financial reporting used by management to make operating decisions, assess performance and allocate resources. All inter segment transactions are eliminated in the segment presentation.

Our management makes operating decisions, assesses performance and allocates resources based on financial and operating data and measures that are presented without giving effect to the consolidation of any of the funds that we manage. In addition, there are other components of our reportable segment results that differ from the equivalent GAAP results on a consolidated basis. These differences are described below. We believe such adjustments are meaningful because management makes operating decisions and assesses the performance of our business based on financial and operating metrics and data that are presented without the consolidation of any funds.

### Segment Operating and Performance Measures

#### Fee Related Earnings

Fee related earnings ("FRE") is comprised of segment operating revenues, less segment operating expenses. The components of FRE on a segment basis differ from the equivalent GAAP amounts on a combined basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation;

(ii) the exclusion of expenses of consolidated funds; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity charges and other non-cash compensation charges borne by KKR Holdings; (vi) the exclusion of certain reimbursable expenses and (vii) the exclusion of certain non-recurring items.

**Investment Income (Loss)**

Investment income is composed of net carried interest and other investment income (loss). Carried interests entitle the general partner of our private equity funds to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduces third party investors' share of those earnings. Carried interests are earned on realized and unrealized gains (losses) on fund investments as well as dividends received by our funds. Amounts earned pursuant to carried interests are included in investment income to the extent that cumulative investment returns in a given fund are positive. If these investment returns decrease or turn negative in subsequent periods, recognized carried interests will be reduced and reflected as investment losses. Gross carried interest is reduced for carry pool allocations and refunds of management fees payable upon the recognition of carried interest.

Allocations to our carry pool represent approximately 40% of carried interest earned in funds and vehicles eligible to receive carry distributions to be allocated to our principals plus any allocation of carried interest to our other personnel as part of our profit sharing plan. No carry pool allocations are recorded in funds and vehicles that are in either a clawback position or a net loss sharing position and therefore carry pool allocations may not always equal 40% of gross carried interest. Prior to October 1, 2009, allocations to our carry pool consisted only of allocations to our employee profit sharing program.

Certain of our investment funds require that we refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of management fees earned.

Other investment income (loss) is comprised of realized and unrealized gains (losses) and dividends on capital invested by the general partners of our funds and by us, as well as interest income and interest expense.

**Economic Net Income**

Economic net income ("ENI") is a measure of profitability for KKR's reportable segments and is comprised of: (i) FRE; plus (ii) segment investment income, which is reduced for carry pool allocations and management fee refunds; less (iii) certain economic interests in KKR's segments held by third parties. ENI differs from net income on a U.S. GAAP basis as a result of: (i) the exclusion of the items referred to in FRE above; (ii) the exclusion of investment income relating to noncontrolling interests; and (iii) the exclusion of income taxes.

**Committed Dollars Invested**

Committed dollars invested is the aggregate amount of capital commitments that have been invested by our investment funds and carry-yielding co-investment vehicles during a given period. Such amounts include: (i) capital invested by fund investors and co-investors with respect to which we are entitled to a carried interest and (ii) capital invested by us.

**Uncalled Commitments**

Uncalled commitments represents unfunded capital commitments that KKR's investment funds and carry paying co-investment vehicles have received from partners to contribute capital to fund future investments.

**CONSOLIDATED AND COMBINED RESULTS OF OPERATIONS**

The following is a discussion of our consolidated and combined results of operations for the years ended December 31, 2010, 2009 and 2008. You should read this discussion in conjunction with the consolidated and combined financial statements and related notes included elsewhere in this report. For a more detailed discussion of the factors that affected the results of operations of our three business segments in these periods, see "— Segment Analysis."

The following tables set forth information regarding our results of operations for the years ended December 31, 2010, 2009 and 2008.

<i>(\$ in thousands) Years Ended December 31,</i>	2010	2009	2008
<b>Revenues</b>			
Fees	\$ 435,386	\$ 331,271	\$ 235,181
<b>Expenses</b>			
Employee Compensation and Benefits	1,344,455	838,072	149,182
Occupancy and Related Charges	39,692	38,013	30,430
General, Administrative and Other	311,147	264,396	179,673
Fund Expenses	67,369	55,229	59,103
<b>Total Expenses</b>	<b>1,762,663</b>	<b>1,195,710</b>	<b>418,388</b>
<b>Investment Income (Loss)</b>			
Net Gains (Losses) from Investment Activities	7,755,090	7,505,005	(12,944,720)
Dividend Income	1,250,293	186,324	75,441
Interest Income	226,824	142,117	129,601
Interest Expense	(53,099)	(79,638)	(125,561)
<b>Total Investment Income (Loss)</b>	<b>9,179,108</b>	<b>7,753,808</b>	<b>(12,865,239)</b>
<b>Income (Loss) Before Taxes</b>	<b>7,851,831</b>	<b>6,889,369</b>	<b>(13,048,446)</b>
<b>Income Taxes</b>	<b>75,360</b>	<b>36,998</b>	<b>6,786</b>
<b>Net Income (loss)</b>	<b>7,776,471</b>	<b>6,852,371</b>	<b>(13,055,232)</b>
Less: Net Income (loss) Attributable to Noncontrolling Interests in Consolidated Entities	6,544,016	6,119,382	(11,850,761)
Less: Net Income (Loss) Attributable to Noncontrolling Interests in KKR Holdings L.P.	899,277	(116,696)	—
<b>Net Income (Loss) Attributable to KKR &amp; Co. L.P.</b>	<b>\$ 333,178</b>	<b>\$ 849,685</b>	<b>\$ (1,204,471)</b>

**Year ended December 31, 2010 compared to year ended  
December 31, 2009**

**Fees**

Fees were \$435.4 million for the year ended December 31, 2010, an increase of \$104.1 million, or 31.4%, from the year ended December 31, 2009. The increase was primarily due to an increase in fees relating to underwriting, syndication, and other capital markets services of \$71.2 million driven by an increase in the number of capital markets transactions during the period. In addition, there was a \$57.4 million increase in gross transaction fees received from transaction fee-generating investments, reflecting an increase in the number of transaction fee-generating investments during the period. Incentive fees from KFN increased \$34.4 million as a result of KFN's financial performance exceeding certain required benchmarks for each of the four quarters during the year ended December 31, 2010. KFN only earned an incentive fee in one quarter during the year ended December 31, 2009. Partially offsetting these increases was a decrease in monitoring fees of \$55.2 million, primarily due to \$72.2 million in fees received during the year ended December 31, 2009 relating to the termination of monitoring agreements in connection with the IPOs of two portfolio companies, Dollar General Corporation and Avago Technologies Limited and partially offset by a \$16.1 million increase in reimbursable expenses. These types of termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with initial public offering activity in our private equity portfolio.

**Expenses**

Expenses were \$1.8 billion for the year ended December 31, 2010, an increase of \$0.6 billion, or 47.4%, from the year ended December 31, 2009. The increase was primarily due to an increase in non-cash equity based charges of \$261.8 million associated with the issuance of interests in KKR Holdings to our principals, other employees and operating consultants as well as increases in the allocations to our carry pool of \$278.7 million. The increase in allocations to our carry pool was due to (i) a higher level of gross carried interest recognized in 2010 and (ii) the allocation of a portion of carried interest to our carry pool for the full year in 2010 versus only one quarter in 2009. Allocations to the carry pool were not made prior to the Transactions on October 1, 2009. For the year ended December 31, 2010, these items resulted in charges recorded in employee compensation and benefits relating to principals and other personnel amounting to \$1.1 billion, and charges recorded in general, administrative, and other expense relating to operating consultants amounting to \$143.7 million. In addition, other employee compensation and benefits expense, comprised primarily of salaries and incentive compensation, increased \$29.7 million as a result of the hiring of additional personnel and the continued expansion of our businesses, and transaction related expenses increased \$10.1 million as a result of a higher level of unconsummated transactions during the period. Offsetting these increases was a decrease related to non-recurring charges of \$34.8 million associated with the closing of the Transactions in the prior period.

**Net Gains (Losses) from Investment Activities**

Net gains from investment activities were \$7.8 billion for the year ended December 31, 2010, an increase of \$0.3 billion, or 3.3%, from the year ended December 31, 2009. The following is a summary of net gains (losses) from investment activities:

(\$ in thousands) Year Ended December 31,	2010	2009
Private Equity Investments	\$ 7,511,340	\$ 7,375,947
Other Net Gains (Losses) from Investment Activities	243,750	129,058
Net Gains (Losses) from Investment Activities	\$7,755,090	\$7,505,005

The majority of our net gains (losses) from investment activities relate to our private equity portfolio. The following is a summary of the components of net gains (losses) from investment activities for Private Equity Investments which illustrates the significant variances from the prior period. See "— Segment Analysis — Private Markets Segment" for further information regarding significant gains and losses in our private equity portfolio.

(\$ in thousands) Year Ended December 31,	2010	2009
Realized Gains	\$ 2,474,584	\$ 299,721
Unrealized Losses from Sales of Investments and Realization of Gains <sup>(a)</sup>	(2,484,878)	(482,299)
Realized Losses	(122,876)	(473,269)
Unrealized Gains from Sales of Investments and Realization of Losses <sup>(b)</sup>	157,874	479,617
Unrealized Gains from Changes in Fair Value	10,010,038	9,696,213
Unrealized Losses from Changes in Fair Value	(2,523,402)	(2,144,036)
Net Gains (Losses) from Investment Activities—Private Equity Investments	\$ 7,511,340	\$ 7,375,947

(a) Amounts represent the reversal of previously recognized unrealized gains in connection with realization events where such gains become realized.

(b) Amounts represent the reversal of previously recognized unrealized losses in connection with realization events where such losses become realized.

**Dividend Income**

Dividend income was \$1.3 billion for the year ended December 31, 2010, an increase of \$1.1 billion compared to dividend income of \$186.3 million for the year ended December 31, 2009. During the year ended December 31, 2010, we received \$1.2 billion of dividends from two portfolio companies and an aggregate of \$42.6 million of comparatively smaller dividends from other investments. During the year ended December 31, 2009, we received \$179.2 million of dividends from two portfolio companies and an aggregate of \$7.1 million of comparatively smaller dividends from other investments.

**Interest Income**

Interest income was \$226.8 million for the year ended December 31, 2010, an increase of \$84.7 million, compared to interest income of \$142.1 million for the year ended December 31, 2009. The increase primarily reflects an increase in the level of fixed income instruments in our fixed income vehicles and our private equity portfolio.

**Interest Expense**

Interest expense was \$53.1 million for the year ended December 31, 2010, a decrease of \$26.5 million, compared to interest expense of \$79.6 million for the year ended December 31, 2009. The decrease was primarily due to lower average outstanding borrowings resulting from the repayment of borrowings under our revolving credit agreements, partially offset by the issuance of senior notes during 2010.

**Income (Loss) Before Taxes**

Due to the factors described above, income before taxes was \$7.9 billion for the year ended December 31, 2010, an increase of \$1.0 billion, or 14.0%, from the year ended December 31, 2009.

**Net Income (Loss) Attributable to Noncontrolling Interests in  
Consolidated Entities**

Net income attributable to noncontrolling interests in consolidated entities was \$6.5 billion for the year ended December 31, 2010, an increase of \$0.4 billion, or 6.9%, from the year ended December 31, 2009. The increase was primarily driven by the overall increase in the components of net gains (losses) from investment activities described above.

**Net Income (Loss) Attributable to Noncontrolling Interests in KKR Holdings L.P.**

Net income attributable to noncontrolling interests in KKR Holdings was \$0.9 billion for the year ended December 31, 2010, an increase of \$1.0 billion compared to loss attributable to noncontrolling interests in KKR Holdings of \$0.1 billion for the year ended December 31, 2009.

The increase is primarily due to the change in net gains (losses) from investment activities described above.

**Year ended December 31, 2009 compared to year ended December 31, 2008**

**Fees**

Fees were \$331.3 million for the year ended December 31, 2009, an increase of \$96.1 million, or 40.9%, from the year ended December 31, 2008. The increase was primarily due to a \$50.5 million increase in transaction fees, from \$41.3 million to \$91.8 million for the years ended December 31, 2008 and 2009, respectively reflecting an increase in transaction-fee generating private equity investments during the period. During the year ended December 31, 2009, we completed twelve transaction-fee generating transactions with a combined transaction value of \$5.1 billion compared to four transaction-fee generating transactions with a combined transaction value of \$4.5 billion in 2008. Transaction fees are negotiated separately for each completed transaction based on the services that we provide and will also vary depending on the nature of the investment being made. Monitoring fees increased \$39.2 million reflecting the net impact of (i) an increase of \$72.2 million relating to fees received for the termination of monitoring fee contracts in connection with public equity offerings of two of our portfolio companies, (ii) a decrease relating to the receipt in the prior period of a non-recurring \$15.0 million advisory fee from one of our portfolio companies in connection with equity raised by that company, (iii) a \$6.8 million net decrease in reimbursable expenses and (iv) a net decrease of \$11.2 million in fees received from certain portfolio companies due primarily to a decline in the number of portfolio companies paying a fee and to a lesser extent lower average fees received. During the year ended December 31, 2009, excluding one time fees received from the termination of monitoring fee contracts, we had 30 portfolio companies that were paying an average fee of \$2.9 million compared with 33 portfolio companies that were paying an average fee of \$3.0 million during the year ended December 31, 2008. In addition, during 2009 fees were increased by a third quarter incentive fee of \$4.5 million earned from KKR Financial Holdings LLC (NYSE: KFN), or KFN, as a result of KFN's financial performance exceeding certain required benchmarks. No such fee was earned in the prior period.

**Expenses**

Expenses were \$1,195.7 million for the year ended December 31, 2009, an increase of \$777.3 million, as compared to expenses of \$418.4 million for the year ended December 31, 2008. The increase was primarily due to non-cash charges associated with the issuance of interests in KKR Holdings to our principals and operating consultants. For the year ended December 31, 2009, non-cash employee compensation and benefits relating to principals amounted to \$644.5 million, and non-cash charges recorded in general and administrative expenses relating to operating consultants amounted to \$85.0 million. In addition, other employee compensation and benefits expenses increased \$44.4 million due to (i) a \$26.9 million increase in profit sharing costs in connection with an increase in the value of our private equity portfolio, (ii) an \$11.7 million increase in salaries and other benefits reflecting the hiring of additional personnel in connection with the expansion of our business, and (iii) a \$5.8 million increase in incentive compensation in connection with higher bonuses in 2009 reflecting improved overall financial performance of our management companies when compared to the prior period. The remainder of the net increase in expenses is the result of the net impact of the following: (i) a \$34.8 million non-recurring charge associated with the closing of the Transactions, (ii) an increase

in occupancy costs of \$7.6 million primarily reflecting the opening of new offices subsequent to December 31, 2008 as well as an increase in existing office space, (iii) a decrease in transaction related expenses attributable to unconsummated transactions during the period of \$14.0 million, from \$28.2 million to \$14.2 million for the years ended December 31, 2008 and 2009, respectively, and (iv) decreases in other operating expenses of \$25.0 million reflecting expense reductions across the majority of our businesses.

**Net Gains (Losses) from Investment Activities**

Net gains from investment activities were \$7.5 billion for the year ended December 31, 2009, an increase of \$20.4 billion compared to net losses from investment activities of \$12.9 billion for the year ended December 31, 2008. The increase in net gains (losses) from investment activities from the prior period was primarily attributable to net unrealized gains of \$7.8 billion resulting primarily from increases in the market value of our investment portfolio during 2009 compared to net unrealized losses of \$13.2 billion during 2008. This change in net unrealized gains and losses resulted in a net favorable variance in unrealized investment activity from the prior period of \$21.0 billion. Offsetting the increase in unrealized gains (losses) was realization activity that represented a net loss for 2009 of \$0.3 billion compared with a net gain of \$0.3 billion for 2008, which resulted in a net unfavorable variance in realization activity from the prior period of \$0.6 billion. The majority of our net gains (losses) from investment activities are related to our private equity investments. The following is a summary of the components of net gains (losses) from investment activities:

<i>(\$ in thousands) Year Ended December 31,</i>	2009	2008
Realized Gains	\$ 393,310	\$ 446,856
Unrealized Losses from Sales of Investments and Realization of Gains <sup>(a)</sup>	(498,839)	(345,477)
Realized Losses	(707,717)	(193,446)
Unrealized Gains from Sales of Investments and Realization of Losses <sup>(b)</sup>	683,696	101,402
Unrealized Gains from Changes in Fair Value	9,831,344	2,681,711
Unrealized Losses from Changes in Fair Value	(2,196,789)	(15,635,766)
<b>Net Gains (Losses) from Investment Activities</b>	<b>\$ 7,505,005</b>	<b>\$ (12,944,720)</b>

(a) Amounts represent the reversal of previously recognized unrealized gains in connection with realization events where such gains become realized.

(b) Amounts represent the reversal of previously recognized unrealized losses in connection with realization events where such losses become realized.

**Dividend Income**

Dividend income was \$186.3 million for the year ended December 31, 2009, an increase of \$110.9 million compared to dividend income of \$75.4 million for the year ended December 31, 2008. Our dividends are generally earned in connection with sales of significant operations undertaken by our portfolio companies resulting in available cash that is distributed to our private equity funds. During the year ended December 31, 2009, we received \$179.2 million of dividends from two portfolio companies and an aggregate of \$7.1 million of comparatively smaller dividends from other investments. During the year ended December 31, 2008, we received \$74.2 million of dividends from two portfolio companies and an aggregate of \$1.2 million of comparatively smaller dividends from other investments.

**Interest Income**

Interest income was \$142.1 million for the year ended December 31, 2009, an increase of \$12.5 million, or 9.7%, from the year ended December 31, 2008. The increase primarily reflects an increase of \$38.1 million at one of our fixed income vehicles resulting from a

## MANAGEMENT'S DISCUSSION AND ANALYSIS

higher average level of debt investments during the period. Offsetting this increase was (i) a decrease of \$19.9 million at the KPE Investment Partnership due to a decrease in interest income-yielding investments, (ii) a \$2.0 million decrease as a result of the exclusion of the general partners of the 1996 Fund in the fourth quarter of 2009, which interests were not contributed to the KKR Group Partnerships in connection with the Transactions, and (iii) a \$3.7 million decrease at our management companies and private equity funds resulting from lower average cash balances.

### Interest Expense

Interest expense was \$79.6 million for the year ended December 31, 2009 a decrease of \$45.9 million, or 36.6%, from the year ended December 31, 2008. Average outstanding borrowings remained unchanged from the year ended December 31, 2008, however the weighted average interest rate was lower during the year ended December 31, 2009 as compared to the prior year period.

## SEGMENT ANALYSIS

The following is a discussion of the results of our three reportable business segments for the years ended December 31, 2010, 2009 and 2008. You should read this discussion in conjunction with the information included under “—Basis of Financial Presentation—Segment Results” and the consolidated and combined financial statements and related notes included elsewhere in this report.

### Private Markets Segment

The following tables set forth information regarding the results of operations and certain key operating metrics for our Private Markets segment for the years ended December 31, 2010, 2009 and 2008.

(\$ in thousands) Years Ended December 31,

	2010	2009	2008
<b>Fees</b>			
Management and Incentive Fees:			
Management Fees	\$ 396,227	\$ 415,207	\$ 396,394
Incentive Fees	—	—	—
Total Management and Incentive Fees	396,227	415,207	396,394
Net Monitoring and Transaction Fees:			
Monitoring Fees	86,932	158,243	97,256
Transaction Fees	96,000	57,699	23,096
Total Fee Credits	(52,563)	(73,900)	(12,698)
Net Transaction and Monitoring Fees	130,369	142,042	107,654
Total Fees	526,596	557,249	504,048
<b>Expenses</b>			
Employee Compensation and Benefits	159,561	147,801	135,204
Occupancy and Related Charges	36,395	34,747	27,665
Other Operating Expenses	148,357	134,610	185,027
Total Expenses	344,313	317,158	347,896
Fee Related Earnings	182,283	240,091	156,152
<b>Investment Income (Loss)</b>			
Gross Carried interest	1,202,070	826,193	(1,197,387)
Less: Allocation to KKR carry pool	(453,872)	(57,971)	8,156
Less: Management fee refunds	(143,446)	(22,720)	29,611
Net carried interest	604,752	745,502	(1,159,620)
Other investment income (loss)	(1,643)	128,528	(230,053)
Total Investment Income (Loss)	603,109	874,030	(1,389,673)
<b>Income (Loss) before Income (Loss)</b>			
Attributable to Noncontrolling Interests	785,392	1,114,121	(1,233,521)
Income (Loss) Attributable to Noncontrolling Interests	839	497	—
<b>Economic Net Income</b>	\$ 784,553	\$ 1,113,624	\$ (1,233,521)
Assets under management (period end)	\$46,223,900	\$38,842,900	\$35,283,700
Fee paying assets under management (period end)	\$ 38,186,700	\$36,484,400	\$39,244,700
Committed Dollars Invested	\$ 4,555,700	\$ 2,107,700	\$ 3,168,800
Uncalled Commitments (period end)	\$12,625,900	\$ 13,728,100	\$ 14,930,142

### Income (Loss) Before Taxes

Due to the factors described above, income before taxes was \$6.9 billion for the year ended December 31, 2009, an increase of \$19.9 billion compared to loss before taxes of \$13.0 billion for the year ended December 31, 2008.

### Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities

Net income attributable to noncontrolling interests in consolidated entities was \$6.1 billion for the year ended December 31, 2009, an increase of \$18.0 billion compared to net loss attributable to noncontrolling interests in consolidated entities of \$11.9 billion for the year ended December 31, 2008. The increase was primarily driven by the overall changes in the components of net gains (losses) from investment activities described above.

**Year ended December 31, 2010 compared to year ended December 31, 2009**

**Fees**

Fees were \$526.6 million for the year ended December 31, 2010, a decrease of \$30.7 million, or 5.5%, from the year ended December 31, 2009. The decrease was primarily due to a \$71.3 million decrease in gross monitoring fees. This decrease was primarily due to the absence in 2010 of \$72.2 million in fees received during the year ended December 31, 2009 relating to the termination of monitoring agreements in connection with the IPOs of two portfolio companies, Dollar General Corporation and Avago Technologies Limited. These types of termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with initial public offering activity in our private equity portfolio. In addition, management fees decreased \$19.0 million resulting primarily from the net impact of the following: (i) a \$28.2 million decrease in management fees as fees which were previously earned from KPE have been eliminated as a result of the Transactions on October 1, 2009; (ii) a decrease of \$10.9 million primarily relating to fee paying capital that was transferred from a fee paying private equity fund (European Fund III) to a non-fee paying private equity fund (E2 Investors) subsequent to September 30, 2009; (iii) a \$5.4 million net decrease due primarily to a reduction in fee paying capital at our private equity funds in connection with realization activity offset by new fee paying capital raised; and (iv) an increase of \$25.5 million associated with a reduction in waived management fees during 2010. The net decrease in fees was partially offset by (i) an increase in gross transaction fees of \$38.3 million primarily reflecting an increase in the number of transaction fee-generating investments during the period and (ii) a \$21.3 million decrease in credits earned by limited partners under fee sharing arrangements in our private equity funds due primarily to the decline in gross transaction and monitoring fees.

**Expenses**

Expenses were \$344.3 million for the year ended December 31, 2010, an increase of \$27.2 million, or 8.6%, from the year ended December 31, 2009. The increase was primarily due to an increase in other operating expenses of \$13.7 million primarily reflecting an increase in transaction related expenses of \$10.1 million attributable to un consummated transactions during the period. In addition, employee compensation and benefits expense increased \$11.8 million reflecting the hiring of additional personnel and the continued expansion of our business.

**Fee Related Earnings**

Fee related earnings in our Private Markets segment were \$182.3 million for the year ended December 31, 2010, a decrease of \$57.8 million, or 24.1%, from the year ended December 31, 2009. The decrease was due to the decline in fees and increase in expenses described above.

**Investment Income**

Investment income was \$603.1 million for the year ended December 31, 2010, a decrease of \$270.9 million, or 31.0%, compared to investment income of \$874.0 million for the year ended December 31, 2009. The decrease was primarily driven by certain adjustments related to the Combination Transaction that were applicable for the full year of 2010 versus only one quarter in 2009, including (i) the exclusion of carried interest from the 1996 Fund, (ii) the exclusion of carried interest allocated to certain of our former principals, (iii) the allocation of a portion of carried interest to the carry pool, and (iv) the exclusion of investment gains and losses on capital invested by or on behalf of the general partners of our private equity funds. For the year ended December 31, 2010, investment income (loss) included (i) net carried interest of \$604.8 million and (ii) other investment income (loss) of \$(1.6) million, which was comprised primarily of losses from unfavorable changes in foreign exchange rates. The following table presents the components of net carried interest for the years ended December 31, 2010 and 2009.

(\$ in thousands) Year Ended December 31,	2010	2009
Net Realized Gains (Losses)	\$ 420,574	\$ (44,136)
Net Unrealized Gains (Losses)	593,971	835,028
Dividends and Interest	187,525	35,301
Gross carried interest	1,202,070	826,193
Less: Allocation to KKR carry pool	(453,872)	(57,971)
Less: Management fee refunds	(143,446)	(22,720)
Net carried interest	\$ 604,752	\$ 745,502

Net realized gains (losses) for the year ended December 31, 2010 consists primarily of the sales of East Resources Inc. and Eastman Kodak Company, and partial sales of Dollar General Corporation, Legrand Holdings S.A. and Avago Technologies Limited. Net realized gains (losses) for the year ended December 31, 2009 consists primarily of the write-off of our investment in Masonite International, Inc., offset by realized gains on initial public offerings of Avago Technologies Limited and Dollar General Corporation. The following table presents net unrealized gains (losses) of carried interest by fund for the years ended December 31, 2010 and 2009.

(\$ in thousands) Year Ended December 31,	2010	2009
2006 Fund	\$216,594	\$ 203,762
Asian Fund	170,526	22,422
Millennium Fund	73,098	380,054
European Fund	70,091	123,834
Co-Investment Vehicles	40,926	57,183
European Fund III	21,768	—
E2 Investors	968	—
1996 Fund <sup>(a)</sup>	—	47,773
Total <sup>(a)</sup>	\$ 593,971	\$ 835,028

(a) The above table excludes any funds for which there were no unrealized gains (losses) of carried interest during either of the periods presented. In addition, subsequent to the Transactions, the 1996 Fund was no longer included in our results and therefore no unrealized gains (losses) of carried interest attributable to the 1996 Fund are included for the year ended December 31, 2010 or the three months ended December 31, 2009.

For the year ended December 31, 2010, approximately 33% of net unrealized gains from changes in value were attributable to increased share prices of various publicly held investments, the most significant of which were Dollar General Corporation (NYSE: DG) and Legrand Holdings S.A. (ENXTPA: LR). Our private portfolio contributed the remainder of the net unrealized gains from changes in value, the most significant of which were HCA Inc. (healthcare sector), Alliance Boots GmbH (healthcare sector) and U.S. Foodservice (retail sector). The increased valuations, in the aggregate, generally related to both improvements in market comparables and individual company performance.

For the year ended December 31, 2009, approximately 40% of unrealized gains were attributable to increased share prices of various publicly held investments, the most significant of which were Legrand Holdings S.A. (ENXTPA: LR), Avago Technologies Limited (NYSE: AVGO), Sealy Corporation (NYSE: ZZ) and Rockwood Holdings, Inc. (NYSE: ROC). Our private portfolio contributed the remainder of the unrealized gains, the most significant of which were HCA Inc. (healthcare sector), KKR Debt Investors S.a.r.l. (financial services sector), and Alliance Boots GmbH (healthcare sector). In addition, there was a significant unrealized gain due to the reversal of a previously recognized unrealized loss in connection with the write-off of our investment in Masonite International Inc. (manufacturing sector) when the loss became realized. The increased valuations, in the aggregate, generally related to both improvements in market comparables and individual company performance.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Dividend and interest income for the year ended December 31, 2010 consists primarily of dividends earned from HCA Inc. (healthcare sector) and Visant Inc. (media sector). Dividend and interest income for the year ended December 31, 2009 consists primarily of dividends earned from Dollar General Corporation and Legrand Holdings S.A. The amount of carried interest earned during the year ended December 31, 2010 for those funds and vehicles eligible to receive carried interest amounted to \$1.1 billion, of which the carry pool was allocated approximately 40% and the remaining portion was allocated to KKR and KKR Holdings based on their respective ownership percentages. Management fee refunds amounted to \$143.4 million for the year ended December 31, 2010, an increase of \$120.7 million from the year ended December 31, 2009 primarily reflecting the 2006 Fund becoming carry-earning in 2010.

### Economic Net Income (Loss)

Economic net income in our Private Markets segment was \$784.6 million for the year ended December 31, 2010, a decrease of \$329.1 million compared to economic net income of \$1.1 billion for the year ended December 31, 2009. The decrease in investment income described above was the main contributor to the period over period decline in economic net income.

### Assets Under Management

The following table reflects the changes in our Private Markets AUM from December 31, 2009 to December 31, 2010:

<i>(\$ in thousands)</i>	
December 31, 2009 AUM	\$38,842,900
New Capital Raised	3,025,500
Distributions	(4,085,200)
Foreign Exchange	(274,800)
Change in Value	8,715,500
December 31, 2010 AUM	\$46,223,900

AUM in our Private Markets segment was \$46.2 billion at December 31, 2010, an increase of \$7.4 billion, or 19.0%, compared to \$38.8 billion at December 31, 2009. The increase was primarily attributable to \$8.7 billion of net unrealized gains resulting from changes in the market values of our private equity portfolio companies, as well as \$3.0 billion of new capital raised. The net unrealized investment gains in our private equity funds were driven primarily by net unrealized gains of \$3.2 billion, \$1.4 billion, \$1.3 billion, \$0.9 billion, and \$0.8 billion in our 2006 Fund, Millennium Fund, European Fund II, Asian Fund and European Fund, respectively. Approximately 40% of the net change in value for the year ended December 31, 2010 was attributable to changes in share prices of various publicly listed investments, notably increases in Dollar General Corporation (NYSE: DG), Legrand Holdings S.A. (ENXTPA: LR) and NXP Semiconductors NV (NASDAQ: NXPI), which was taken public during the third quarter of 2010. Our private portfolio contributed the remainder of the change in value, with the largest contributor being unrealized gains relating to HCA Inc. (healthcare sector). These unrealized gains were partially offset by significant unrealized losses related to Energy Future Holdings Corp. (energy sector) and U.N Ro-Ro (transportation sector). The increased valuations, in the aggregate, generally related to both improvements in market comparables and individual company performance. Partially offsetting these increases were distributions from our funds totaling \$4.1 billion, which was comprised of \$3.3 billion of realized gains and \$0.8 billion of return of original cost.

### Fee Paying Assets Under Management

The following table reflects the changes in our Private Markets FPAUM from December 31, 2009 to December 2010:

<i>(\$ in thousands)</i>	
December 31, 2009 FPAUM	\$36,484,400
New Capital Raised	2,971,600
Distributions	(650,300)
Foreign Exchange	(658,800)
Change in Value	39,800
December 31, 2010 FPAUM	\$ 38,186,700

FPAUM in our Private Markets segment was \$38.2 billion at December 31, 2010, an increase of \$1.7 billion, or 4.7%, compared to \$36.5 billion at December 31, 2009. The increase was primarily attributable to new fee paying capital raised during 2010, including \$0.9 billion for our China Growth Fund and \$1.1 billion for an infrastructure separately managed account. The increase was partially offset by distributions of \$0.7 billion and a \$0.7 billion decrease related to foreign exchange adjustments on foreign denominated commitments and invested capital.

### Committed Dollars Invested

Committed dollars invested were \$4.6 billion for the year ended December 31, 2010, an increase of \$2.4 billion from the year ended December 31, 2009.

### Uncalled Commitments

As of December 31, 2010 our Private Markets segment had \$12.6 billion of remaining uncalled capital commitments that could be called for investment in new transactions.

### Year ended December 31, 2009 compared to year ended December 31, 2008

#### Fees

Fees in our Private Markets segment were \$557.2 million for the year ended December 31, 2009, an increase of \$53.2 million, or 10.6%, from the year ended December 31, 2008. The increase was primarily due to a \$34.4 million increase in net transaction and monitoring fees. Transaction fees are negotiated separately for each completed transaction based on the services that we provide and will also vary depending on the nature of the investment being made. The increase in net transaction and monitoring fees was primarily the result of (i) an increase in gross transaction fees of \$34.6 million reflecting an increase in transaction-fee generating private equity investments during the period (we completed twelve transaction-fee generating transactions with a combined transaction value of \$5.1 billion in 2009 compared to four transaction-fee generating transactions in 2008 with a combined transaction value of \$4.5 billion); (ii) an increase in gross monitoring fees of \$61.0 million reflecting the net impact of an increase of \$72.2 million relating to fees received for the termination of monitoring fee contracts in connection with public equity offerings of two of our portfolio companies and a net \$11.2 million decrease in fees received from certain portfolio companies due primarily to a decline in the number of portfolio companies paying a monitoring fee and a lower average fee received; and (iii) an increase in credits earned by limited partners under fee sharing arrangements in our private equity funds of \$61.2 million due to the increase in transaction and monitoring fees. During the year ended December 31, 2009, excluding one time fees received from the termination of monitoring fee contracts, we had 30 portfolio companies that were paying an average monitoring fee of \$2.9 million, compared with 33 portfolio companies that were paying an average fee of \$3.0 million during the year ended December 31, 2008. In addition there was an \$18.8 million increase in management fees which was primarily the result of a full year of fees associated with the European III fund which began earning fees in the second quarter of 2008.

### Expenses

Expenses were \$317.2 million for the year ended December 31, 2009, a decrease of \$30.7 million, or 8.8%, from the year ended December 31, 2008. The decrease was primarily due to the net impact of the following: (i) a decrease in transaction related expenses of \$14.0 million attributable to unconsummated transactions during the period, from \$28.2 million to \$14.2 million for the years ended December 31, 2008 and 2009, respectively; (ii) decreases in operating expenses of \$36.4 million (excluding the non-recurring charge described below) primarily as a result of a reduction in professional and other service provider fees due to our efforts to actively manage our expense base in a deteriorating economic environment; (iii) an increase in occupancy costs of \$7.1 million reflecting the opening of new offices subsequent to December 31, 2008 as well as an increase in existing office space; and (iv) an increase in employee compensation and benefits expense of \$12.6 million resulting from an increase in salaries reflecting the hiring of additional personnel in connection with the expansion of our business as well as an increase in incentive compensation in connection with higher bonuses in 2009 reflecting improved overall financial performance of our private markets management company when compared to the prior period. Our Private Markets expenses exclude a \$34.8 million charge incurred in connection with the Transactions. Management has excluded this charge from our segment financial information as such amount will be not be considered when assessing the performance of or allocating resources to, each of our business segments, and is non-recurring in nature. On a consolidated basis, this charge is included in general, administrative and other expenses.

### Fee Related Earnings

Due primarily to the increase in fees described above, fee related earnings in our Private Markets segment were \$240.1 million for the year ended December 31, 2009, an increase of \$83.9 million, or 53.7%, from the year ended December 31, 2008.

### Investment Income (Loss)

Investment income was \$874.0 million for the year ended December 31, 2009, an increase of \$2.3 billion compared to investment losses of \$1.4 billion for the year ended December 31, 2008. For the year ended December 31, 2009, investment income (loss) was comprised of (i) net carried interest of \$745.5 million and (ii) other investment income (loss) of \$128.5 million, which includes net gains from investment activities of \$106.4 million, dividends of \$23.7 million and net interest expense of \$1.6 million. The following table presents the components of net carried interest for the years ended December 31, 2009 and 2008.

(\$ in thousands) Year Ended December 31,	2009	2008
Net Realized Gains (Losses)	\$ (44,136)	\$ 67,709
Net Unrealized Gains (Losses)	835,028	(1,279,358)
Dividends and Interest	35,301	14,262
Gross carried interest	826,193	(1,197,387)
Less: Allocation to KKR carry pool	(57,971)	8,156
Less: Management fee refunds	(22,720)	29,611
Net carried interest	\$745,502	\$(1,159,620)

Net realized gains (losses) for the year ended December 31, 2009 consists primarily of the write-off of our investment in Masonite International, Inc., offset by realized gains in connection with the initial public offerings of Avago Technologies Limited and Dollar General Corporation. Net realized gains (losses) for the year ended December 31, 2008 consists primarily of the partial sale of Rockwood Holdings, Inc. and the sale of Demag Holdings S.á r.l.

The following table presents net unrealized gains (losses) of carried interest by fund for the years ended December 31, 2009 and 2008.

(\$ in thousands) Year Ended December 31,	2009	2008
Millennium Fund	\$380,054	\$ (512,564)
2006 Fund	203,762	(305,449)
European Fund	123,834	(268,885)
Co-Investment Vehicles	57,183	3,244
1996 Fund <sup>(a)</sup>	47,773	(145,088)
Asian Fund	22,422	—
European Fund II	—	(50,616)
Total <sup>(a)</sup>	\$835,028	\$(1,279,358)

(a) The above table excludes any funds for which there were no unrealized gains (losses) of carried interest during either of the periods presented. For the years ended December 31, 2009 and 2008, these excluded funds were the European Fund III and KKR E2 Investors (Annex Fund). In addition, subsequent to the Transactions, the 1996 Fund was no longer included in our results. As such, net unrealized gains (losses) of carried interest attributable to the 1996 Fund are only included through September 30, 2009.

For the year ended December 31, 2009, approximately 40% of unrealized gains were attributable to increased share prices of various publicly held investments, the most significant of which were Legrand Holdings S.A. (ENXTPA: LR), Avago Technologies Limited (NYSE: AVGO), Sealy Corporation (NYSE: ZZ) and Rockwood Holdings, Inc. (NYSE: ROC). Our private portfolio contributed the remainder of the unrealized gains, the most significant of which were HCA Inc. (healthcare sector), KKR Debt Investors S.á r.l (financial services sector), and Alliance Boots GmbH (healthcare sector). In addition, there was a significant unrealized gain due to the reversal of a previously recognized unrealized loss in connection with the write-off of our investment in Masonite International Inc. (manufacturing sector) when the loss became realized. The increased valuations, in the aggregate, generally related to both improvements in market comparables and individual company performance.

For the year ended December 31, 2008, approximately 40% of unrealized losses were attributable to decreased share prices of various publicly held investments, the most significant of which were Legrand Holdings S.A. (ENXTPA: LR), Rockwood Holdings, Inc. (NYSE: ROC) and Sealy Corporation (NYSE: ZZ). Our private portfolio contributed the remainder of the unrealized losses, the most significant of which were Capmark Financial Group Inc. (financial services sector), PagesJaunes Groupe S.A. (media sector), Alliance Boots GmbH (healthcare sector), and ProSieben SAT.1 Media AG (media sector). The decreased valuations, in the aggregate, generally related to deterioration in market comparables and to a certain extent individual company performance.

Dividend income for the year ended December 31, 2009 consists primarily of dividends earned from Dollar General Corporation and Legrand Holdings S.A. Dividend income for the year ended December 31, 2008 consists primarily of dividends earned from Legrand Holdings S.A. The amount of carried interest earned during the fourth quarter of fiscal year 2009 for those funds and vehicles eligible to receive carried interest amounted to \$92.3 million of which the carry pool was allocated 40% and the remaining portion was allocated to KKR Group Holdings and KKR Holdings based on their respective ownership percentages. The increase in other investment income of \$358.6 million from the year ended December 31, 2008 is primarily due to an increase in net unrealized gains from increases in the market value of capital invested by or on behalf of the general partners of our private equity funds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Economic Net Income (Loss)

Economic net income in our Private Markets segment was \$1.1 billion for the year ended December 31, 2009, an increase of \$2.3 billion compared to economic net loss of \$1.2 billion for the year ended December 31, 2008. The increased investment income described above was the main contributor to the period over period increase in economic net income.

### Assets Under Management

The following table reflects the changes in our Private Markets assets under management from December 31, 2008 to December 31, 2009:

(\$ in thousands)

December 31, 2008 AUM	\$35,283,700
Exclusion of KPE <sup>(a)</sup>	(3,514,400)
New Capital Raised	683,300
Distributions	(808,600)
Change in Value	7,198,900
December 31, 2009 AUM	\$38,842,900

(a) The AUM reported prior to the Transactions reflected the NAV of KPE and its commitments to our funds. Subsequent to the Transactions, the NAV of KPE and its commitments to our funds are excluded from our calculation of assets under management, because these assets are now owned by us and no longer managed on behalf of a third party investor.

AUM in our Private Markets segment was \$38.8 billion at December 31, 2009, an increase of \$3.5 billion, or 9.9%, compared to \$35.3 billion at December 31, 2008. The increase was primarily attributable to \$7.2 billion of net unrealized gains resulting from changes in the market values of our portfolio companies, as well as \$0.7 billion in new capital raised in our European III Fund, E2 Investors and separately managed accounts. The net unrealized investment gains were driven by net unrealized gains of \$2.7 billion, \$1.7 billion, \$0.8 billion, \$0.8 billion and \$0.4 billion in our 2006 Fund, Millennium Fund, European Fund II, European Fund and Asian Fund, respectively, with all other funds also recording net realized gains during the period. Over 50% of the change in value for the year ended December 31, 2009 was attributable to increased share prices of various publicly held investments, notably Dollar General Corporation (NYSE: DG), which we took public in the fourth quarter of 2009, Avago Technologies Limited (NYSE: AVGO), which went public in the third quarter of 2009, and Legrand Holdings S.A. (ENXTPA: LR). Our private portfolio contributed the remainder of the change in value, with the largest contributors being unrealized gains relating to HCA Inc. (healthcare sector) and Alliance Boots GmbH (healthcare sector). These unrealized gains were partially offset by a significant unrealized loss relating to Energy Future Holdings Corp. (energy sector). The increased valuations, in the aggregate, generally related to both improvements in market comparables and individual company performance, coupled with an overall improvement in global markets. This increase was partially offset by distributions from our funds totaling \$0.8 billion comprised of \$0.5 billion of realized gains and \$0.3 billion of return of original cost. In addition, the change in AUM included a \$3.5 billion reduction representing the exclusion of the NAV of KPE and its commitments to our investment funds.

### Fee Paying Assets Under Management

The following table reflects the changes in our Private Markets fee paying assets under management from December 31, 2008 to December 31, 2009:

(\$ in thousands)

December 31, 2008 FPAUM	\$39,244,800
Exclusion of KPE <sup>(a)</sup>	(3,175,900)
New Capital Raised	609,000
European Fund III/E2 Investors	(571,600)
Distributions	(325,058)
Change in Value	703,158
December 31, 2009 FPAUM	\$36,484,400

(a) The FPAUM reported prior to the Transactions reflected the NAV of KPE. Subsequent to the Transactions, the NAV of KPE is excluded from our calculation of fee paying assets under management, because these assets are now owned by us and are no longer managed on behalf of a third party investor.

FPAUM in our Private Markets segment was \$36.5 billion at December 31, 2009, a \$2.7 billion decrease, or 6.9%, compared to \$39.2 billion at December 31, 2008. The decrease was primarily attributable to a \$3.2 billion reduction representing the exclusion of the NAV of KPE and its commitments to our investment funds. In addition, the decrease was attributable to distributions of \$0.3 billion primarily representing the reduction of capital associated with realization activity and \$0.6 billion related to capital that was transferred from a fee paying private equity fund (European Fund III) to a non-fee paying private equity fund (E2 Investors). These decreases were partially offset by new capital raised of \$0.6 billion in our European III Fund and separately managed accounts and \$0.7 billion of foreign exchange adjustments on foreign denominated committed and invested capital. For additional discussion of our private equity funds and other Private Markets investment vehicles, please see "Business" in our Annual Report on Form 10-K.

### Committed Dollars Invested

Committed dollars invested were \$2.1 billion for the year ended December 31, 2009, a decrease of \$1.1 billion, or 33.5%, from the year ended December 31, 2008. The decrease was due primarily to a decrease in both the size and transaction volume of private equity investments closed during 2009 as compared with 2008.

### Uncalled Commitments

As of December 31, 2009, our Private Markets segment had \$13.7 billion of remaining uncalled capital commitments that could be called for investments in new transactions.

### Public Markets Segment

The following tables set forth information regarding the results of operations and certain key operating metrics for our Public Markets segment for the years ended December 31, 2010, 2009 and 2008.

(\$ in thousands) Years Ended December 31,	2010	2009	2008
<b>Fees</b>			
Management and Incentive Fees:			
Management Fees	\$ 57,059	\$ 50,754	\$ 59,342
Incentive Fees	38,832	4,472	—
Total Management and Incentive Fees	95,891	55,226	59,342
Net Transaction Fees:			
Transaction Fees	19,117	—	—
Total Fee Credits	(12,336)	—	—
Net Transaction Fees	6,781	—	—
Total Fees	102,672	55,226	59,342
<b>Expenses</b>			
Employee Compensation and Benefits	29,910	24,086	20,566
Occupancy and Related Charges	2,375	2,483	2,134
Other Operating Expenses	13,430	18,103	4,066
Total Expenses	45,715	44,672	26,766
Fee Related Earnings	56,957	10,554	32,576
<b>Investment Income (Loss)</b>			
Gross Carried interest	5,000	—	—
Less: Allocation to KKR carry pool	(2,000)	—	—
Net carried interest	3,000	—	—
Other investment income (Loss)	718	(5,260)	10,687
Total Investment Income (Loss)	3,718	(5,260)	10,687
<b>Income (Loss) before Income (Loss)</b>			
Attributable to Noncontrolling Interests	60,675	5,294	43,263
Income (Loss) Attributable to Noncontrolling Interests	537	15	6,421
Economic Net Income	\$ 60,138	\$ 5,279	\$ 36,842
Assets under management (period end)	\$14,773,600	\$13,361,300	\$13,167,000
Fee paying assets under management (period end)	\$ 7,824,400	\$ 6,295,400	\$ 4,167,000
Committed Dollars Invested	\$ 697,600	\$ —	\$ —
Uncalled Commitments (period end)	\$ 1,448,800	\$ 816,327	\$ —

### Year ended December 31, 2010 compared to year ended December 31, 2009

#### Fees

Our Public Markets segment earned fees of \$102.7 million for the year ended December 31, 2010, an increase of \$47.5 million, or 85.9%, from the year ended December 31, 2009. The increase is primarily the result of an increase in incentive fee income from KFN of \$34.3 million, from \$4.5 million for the year ended December 31, 2009 to \$38.8 million for the year ended December 31, 2010. The increase in incentive fee income is a result of KFN's financial performance exceeding the required benchmark. The increase in fees is also attributable to increased fee paying assets under management associated with new capital raised (see "Fee Paying Assets Under Management" table below) and \$6.8 million of net transaction fees earned during the year ended December 31, 2010. No transaction fees were earned during the year ending December 31, 2009. These increases in fees were partially offset by an \$11.7 million decrease in management fees from structured finance vehicles. In 2009, we elected to temporarily receive management fees from structured finance vehicles in lieu of being reimbursed \$13.0 million of expenses by KFN and the Strategic Capital Funds. We ceased electing to receive management fees in lieu of the expense reimbursement in the first quarter of 2010 and, as a result, received only \$1.3 million of such fees in 2010.

#### Expenses

Expenses in our Public Markets segment were \$45.7 million for the year ended December 31, 2010, an increase of \$1.0 million, or 2.3%, from \$44.7 million for the year ended December 31, 2009. The increase was primarily due to an increase in employee compensation and benefits expense of \$5.8 million reflecting the hiring of additional personnel and the continued growth of this segment. Partially offsetting the increase in employee compensation and benefits was a decrease in other operating expenses of \$4.6 million which was primarily attributable to an \$11.7 million decrease in waived expense reimbursements. We waived \$13.0 million of expense reimbursements during 2009 from KFN and the Strategic Capital Funds, versus only \$1.3 million in 2010, as noted above. This decrease in other operating expenses was partially offset by increased general and administrative expenses resulting from the expansion of our business.

#### Fee Related Earnings

Fee related earnings in our Public Markets segment were \$57.0 million for the year ended December 31, 2010, an increase of \$46.4 million from \$10.6 million for the year ended December 31, 2009. The increase in fee related earnings is primarily due to the increase in fees described above.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Investment Income (Loss)

Our Public Markets segment had investment income of \$3.7 million for the year ended December 31, 2010, an increase of \$9.0 million from investment losses of \$5.3 million for the year ended December 31, 2009. The increase was primarily driven by net carried interest from certain special situations separately managed accounts earned in the year ended December 31, 2010.

### Economic Net Income

Economic net income in our Public Markets segment was \$60.1 million for the year ended December 31, 2010, an increase of \$54.8 million from economic net income of \$5.3 million for the year ended December 31, 2009. The increase in fee related earnings described above was the main contributors to the period over period increase in economic net income.

### Assets Under Management

The following table reflects the changes in our Public Markets AUM from December 31, 2009 to December 31, 2010:

(\$ in thousands)

December 31, 2009 AUM	\$13,361,300
New Capital Raised	1,970,100
Distributions	(1,281,700)
Foreign Exchange	—
Change in Value	723,900
December 31, 2010 AUM	\$14,773,600

AUM in our Public Markets segment totaled \$14.8 billion at December 31, 2010, an increase of \$1.4 billion, or 10.6%, from \$13.4 billion at December 31, 2009. The increase was driven by \$2.0 billion of new capital raised across our various Public Markets strategies, as well as a \$0.7 billion increase in the net asset value of KFN and certain other fixed income vehicles. These increases were partially offset by \$1.3 billion of redemptions in our liquid credit separately managed accounts.

### Fee Paying Assets Under Management

The following table reflects the changes in our Public Markets FPAUM from December 31, 2009 to December 31, 2010:

(\$ in thousands)

December 31, 2009 FPAUM	\$6,295,400
New Capital Raised	1,893,000
Distributions	(1,281,700)
Foreign Exchange	—
Change in Value	917,700
December 31, 2010 FPAUM	\$7,824,400

FPAUM in our Public Markets segment totaled \$7.8 billion at December 31, 2010, an increase of \$1.5 billion, or 24.3%, from \$6.3 billion at December 31, 2009. The increase was driven by \$1.9 billion of new capital raised across our various Public Markets strategies, as well as a \$0.9 billion increase in the net asset value of KFN and certain other fixed income vehicles. These increases were partially offset by \$1.3 billion of redemptions in our liquid credit separately managed accounts.

### Committed Dollars Invested

Committed dollars invested were \$0.7 billion for the year ended December 31, 2010. There were no committed dollars invested to any of our public markets investment vehicles for the year ended December 31, 2009.

### Uncalled Commitments

As of December 31, 2010 our Public Markets segment had \$1.4 billion of uncalled capital commitments that could be called for investments in new transactions.

### Year ended December 31, 2009 compared to year ended December 31, 2008

#### Fees

Our Public Markets segment earned fees of \$55.2 million for the year ended December 31, 2009, a decrease of \$4.1 million, or 6.9%, from the year ended December 31, 2008. The decrease is primarily the result of a \$15.2 million decrease in management fees received from the Strategic Capital Funds. The reduction in management fees from the Strategic Capital Funds was partially due to a lower average net asset value during the year ended December 31, 2009 which resulted in a reduction of fees of \$7.5 million. Additionally, effective December 1, 2008, the fees for all investor classes of the Strategic Capital Funds were reduced, which resulted in a further reduction of fees of \$7.7 million. Management fees were reduced for all investor classes within the Strategic Capital Funds in conjunction with the mandatory redemption and restructuring of the funds, which was effective December 1, 2008.

In addition to the reduced fees from the Strategic Capital Funds, there was a \$10.2 million decrease in fees received from KFN due primarily to a lower average equity value during the year ended December 31, 2009, offset by an incentive fee received in 2009. KFN's equity value increased during the year ended December 31, 2009, however, because KFN's equity value had declined significantly in the fourth quarter of 2008, the average equity value for the year ended December 31, 2009 was lower than the average equity value for the year ended December 31, 2008. Separately, the incentive fee at KFN is calculated on a quarterly basis and is earned solely based on KFN's financial performance in a given quarter. As a result, the incentive fee can be earned in one quarter of a given year even if KFN experiences negative financial performance for other quarters during that same year. For additional discussion of the KFN incentive fee, please see "Summary of Significant Accounting Policies."

These decreases were offset by a \$7.3 million increase in management fees resulting from an increase in capital managed on behalf of third party investors and an increase in management fees from structured finance vehicles totaling \$14.0 million. Beginning in 2009 we elected to temporarily receive management fees from structured finance vehicles in lieu of being reimbursed \$13.0 million of expenses by KFN and the Strategic Capital Funds, thereby providing incremental cash flow, which otherwise would have been unavailable, to the investors in these entities. The election to receive management fees in lieu of expense reimbursements had an insignificant cash flow impact on us.

#### Expenses

Expenses in our Public Markets segment were \$44.7 million for the year ended December 31, 2009, an increase of \$17.9 million, or 66.9% from the year ended December 31, 2008. The increase was primarily attributable to our waiving of \$13.0 million of expense reimbursements during 2009 from KFN and the Strategic Capital Funds, as noted above. Additionally, employee compensation and benefits expense increased by \$3.5 million, which was primarily due to increased headcount.

#### Investment Income (Loss)

Our Public Markets segment had an investment loss of \$5.3 million for the year ended December 31, 2009, a decrease of \$15.9 million from the year ended December 31, 2008. This decrease was primarily driven by an increase in non-cash stock based compensation expense associated with equity grants received from KFN. Our stock based commitments to employees are tied to the stock price of KFN, and a rising stock price of KFN increases our liability to employees. The stock price of KFN appreciated in 2009 from a price of \$1.58 at December 31, 2008 to a price of \$5.80 at December 31, 2009.

#### Fee Related Earnings

Due primarily to the increase in expenses described above, fee related earnings in our Public Markets segment were \$10.6 million for the year ended December 31, 2009, a decrease of \$22.0 million compared to fee related earnings of \$32.6 million for the year ended December 31, 2008.

#### Economic Net Income

Economic net income in our Public Markets segment was \$5.3 million for the year ended December 31, 2009, a decrease of \$31.6 million compared to economic net income of \$36.8 million for the year ended December 31, 2008. The decrease in fee related earnings described above was the main contributor to the period over period decrease in economic net income.

#### Assets Under Management

The following table reflects the changes in our Public Markets assets under management from December 31, 2008 to December 31, 2009:

(\$ in thousands)

December 31, 2008 AUM	\$ 13,167,000
Exclusion of KPE <sup>(a)</sup>	(62,600)
New Capital Raised	1,416,300
Distributions	(2,000,000)
Investor Redemptions	(634,700)
Change in Value	1,475,300
<b>December 31, 2009 AUM</b>	<b>\$ 13,361,300</b>

(a) The AUM reported prior to the Transactions reflected the NAV of KPE and its commitments to our funds. Subsequent to the Transactions, the NAV of KPE and its commitments to our funds are excluded from our calculation of assets under management, because those items are now owned by us and no longer managed on behalf of a third party investor.

AUM in our Public Markets segment was \$13.4 billion at December 31, 2009, an increase of \$0.2 billion, or 1.5%, compared to \$13.2 billion at December 31, 2008. The increase was driven by \$1.5 billion of net unrealized gains resulting from improvement in the overall credit markets. Our portfolios for KFN (including its majority owned subsidiaries), the Strategic Capital Funds, and our separately managed accounts primarily consisted of corporate debt, including leveraged loans and high yield bonds, with both asset classes experiencing material price appreciation in the fiscal year ended December 31, 2009.

In addition to the unrealized appreciation on the portfolios noted above, we raised \$1.4 billion in new capital for our separately managed accounts. Offsetting these increases was the restructuring and distribution of one of our structured finance vehicles, which decreased our AUM by \$2.0 billion. We restructured and distributed this structured finance vehicle in 2009 as we believed the underlying collateral maintenance requirements and financing terms of this structured finance vehicle were no longer attractive. Further offsetting the increases to our AUM were redemptions of \$0.6 billion from our Strategic Capital Funds.

#### Fee Paying Assets Under Management

The following table reflects the changes in our Public Markets fee paying assets under management from December 31, 2008 to December 31, 2009:

(\$ in thousands)

December 31, 2008 FPAUM	\$ 4,167,000
Exclusion of KPE <sup>(a)</sup>	(62,600)
New Capital Raised	1,400,000
Distributions	—
Investor Redemptions	(634,700)
Change in Value	1,425,700
<b>December 31, 2009 FPAUM</b>	<b>\$6,295,400</b>

(a) The FPAUM reported prior to the Transactions reflected the NAV of KPE. Subsequent to the Transactions, the NAV of KPE is excluded from our calculation of fee paying assets under management, because those items are now owned by us and are no longer managed on behalf of a third party investor.

FPAUM in our Public Market segment was \$6.3 billion at December 31, 2009, an increase of \$2.1 billion, or 50.0%, compared to \$4.2 billion at December 31, 2008. This increase was driven primarily by \$1.4 billion of net unrealized gains resulting from improvements in the overall credit markets. Our portfolios for KFN (including its majority owned subsidiaries), the Strategic Capital Funds, and our separately managed accounts primarily consisted of corporate debt, including leveraged loans and high yield bonds, with both asset classes experiencing material price appreciation in the fiscal year ended December 31, 2009.

In addition to the unrealized appreciation on the portfolios noted above, we raised \$1.4 billion in new capital for our separately managed accounts. Offsetting the increases to our FPAUM were redemptions of \$0.6 billion from our Strategic Capital Funds. For additional discussion of our investment funds, structured finance vehicles, and separately managed accounts, please see "Business" in our Annual Report on Form 10-K.

#### Uncalled Commitments

As of December 31, 2009, our Public Markets segment had \$816.3 million of remaining uncalled capital commitments that could be called for investments in new transactions.

### Capital Markets and Principal Activities Segment

The following table sets forth information regarding the results of operations and certain key operating metrics for our Capital Markets and Principal Activities segment for the years ended December 31, 2010, 2009 and 2008. The Capital Markets and Principal Activities segment was formed upon completion of the Transactions by combining our capital markets business with the assets and liabilities of KPE. As a result, we have reclassified the results of our capital markets business since inception into this segment.

<i>(\$ in thousands) Year Ended December 31,</i>	2010	2009	2008
<b>Fees</b>			
Management and Incentive Fees			
Management Fees	\$	\$	\$
Incentive Fees	—	—	—
Total Management and Incentive Fees	—	—	—
<b>Net Monitoring and Transaction Fees:</b>			
Monitoring Fees	—	—	—
Transaction Fees	105,266	34,129	18,211
Total Fee Credits	—	—	—
Net Transaction and Monitoring Fees	105,266	34,129	18,211
<b>Total Fees</b>	<b>105,266</b>	<b>34,129</b>	<b>18,211</b>
<b>Expenses</b>			
Employee Compensation and Benefits	16,863	9,455	7,094
Occupancy and Related Charges	945	783	727
Other Operating Expenses	8,376	5,238	5,093
<b>Total Expenses</b>	<b>26,184</b>	<b>15,476</b>	<b>12,914</b>
Fee Related Earnings	79,082	18,653	5,297
<b>Investment Income (Loss)</b>			
Gross Carried interest	—	—	—
Less: Allocation to KKR carry pool	—	—	—
Net carried interest	—	—	—
Other investment income (loss)	1,219,053	349,679	(4,129)
<b>Total Investment Income (loss)</b>	<b>1,219,053</b>	<b>349,679</b>	<b>(4,129)</b>
Income (Loss) before Income (Loss) Attributable to Noncontrolling Interests	1,298,135	368,332	1,168
Income (Loss) Attributable to Noncontrolling Interests	3,033	581	(37)
<b>Economic Net Income</b>	<b>\$1,295,102</b>	<b>\$ 367,751</b>	<b>\$ 1,205</b>

### Year ended December 31, 2010 compared to year ended December 31, 2009

#### Fees

Fees in our Capital Markets and Principal Activities segment were \$105.3 million for the year ended December 31, 2010, an increase of \$71.2 million, from \$34.1 million for the year ended December 31, 2009. We completed 45 capital markets transactions in 2010, as compared to 11 transactions in 2009. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting the offerings of equity securities than with respect to the issuance of debt securities, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes. Our capital markets business is dependent on the overall capital markets environment, which is influenced by equity prices, credit spreads and volatility.

#### Expenses

Expenses were \$26.2 million for the year ended December 31, 2010, an increase of \$10.7 million, or 69.2%, from the year ended December 31, 2009. The increase was primarily due to a \$7.4 million increase in employee compensation and benefits expense relating primarily to increased headcount in connection with the expansion of our business as well as to an increase in incentive compensation resulting from the improved overall financial performance of our capital markets business.

#### Fee Related Earnings

Due primarily to the increase in fees described above, fee related earnings in our Capital Markets and Principal Activities segment were \$79.1 million for the year ended December 31, 2010, an increase of \$60.4 million, as compared to fee related earnings of \$18.7 million during the year ended December 31, 2009.

#### Investment Income (Loss)

The following table presents the components of other investment income (loss) for the years ended December 31, 2010 and 2009.

<i>(\$ in thousands) Year Ended December 31,</i>	2010	2009
Net Realized Gains (Losses)	\$ 26,241	\$ 24,516
Net Unrealized Gains (Losses)	966,869	333,578
Dividend Income	226,616	598
Interest Income	25,746	5,104
Interest Expense	(26,419)	(14,117)
<b>Other Investment Income (Loss)</b>	<b>\$1,219,053</b>	<b>\$349,679</b>

The first nine months of 2009 did not include the results of the net assets acquired from KPE since the Transactions were completed on October 1, 2009. Accordingly, the 2009 amounts reflect investment income for the fourth quarter of 2009 and the remainder of 2009 activity primarily relates to interest expense at our capital markets business.

In 2010, the net unrealized gains were comprised of \$821.8 million of net unrealized gains from private equity investments, the most significant of which were Dollar General Corporation (NYSE: DG) and NXP Semiconductors NV (NASDAQ: NXPI), which went public in the third quarter of 2010, as well as \$145.1 million of net unrealized gains from non-private equity investments (total net unrealized gains included reversals of previously recorded unrealized losses of \$216.7 million related to the sale of investments during the year). Net realized gains were comprised of \$150.3 million of realized gains from the sale of certain private equity investments, the most significant of which was the partial sale of Dollar General Corporation, and \$124.1 million of realized losses from the sale of non-private equity investments, which related primarily to the write-off of our investment in Aero Technical Support & Services S.a.r.l. (industrial sector). Dividend income of \$226.6 million in 2010 primarily consisted of dividends earned from HCA Inc. (healthcare sector).

In 2009, net unrealized gains were comprised of \$293.8 million of net unrealized gains from private equity investments, the most significant of which were Dollar General Corporation (NYSE: DG), which went public in the fourth quarter of 2009, NXP Semiconductors N.V. and HCA Inc., as well as \$39.8 million of net unrealized gains from non-private equity investments.

#### Economic Net Income (Loss)

Economic net income in our Capital Markets and Principal Activities segment was \$1.3 billion for the year ended December 31, 2010, an increase of \$927.4 million, as compared to economic net income of \$367.8 million for the year ended December 31, 2009. The increase in investment income described above was the main contributor to the growth in economic net income.

#### Year ended December 31, 2009 compared to year ended December 31, 2008

##### Fees

Fees in our Capital Markets and Principal Activities segment were \$34.1 million for the year ended December 31, 2009, an increase of \$15.9 million, or 87.4%, from the year ended December 31, 2008. The increase was due to an increase in the number of capital markets transactions during the period. We completed 11 capital markets transactions in 2009, as compared to 9 transactions in 2008. These transactions generated \$34.1 million of underwriting, syndication and other capital markets services fees in 2009, compared to \$18.2 million in 2008. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting the offerings of equity securities than with respect to the issuance of debt securities, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes.

##### Expenses

Expenses were \$15.5 million for the year ended December 31, 2009, an increase of \$2.6 million, or 19.8%, from the year ended December 31, 2008. Substantially all of the increase was comprised of an increase in employee compensation and benefits expense resulting from an increase in salaries and bonuses in 2009 in connection with increased revenues when compared to the prior period and, to a lesser extent, an increase in headcount.

##### Fee Related Earnings

Due primarily to the increases in fees as mentioned above, fee related earnings in our Capital Markets and Principal Activities segment were \$18.7 million for the year ended December 31, 2009, an increase of \$13.4 million, as compared to fee related earnings of \$5.3 during the year ended December 31, 2008.

#### Investment Income (Loss)

The following table presents the components of other investment income (loss) for the years ended December 31, 2009 and 2008.

<i>(\$ in thousands) Year Ended December 31,</i>	2009	2008
Net Realized Gains (Losses)	\$ 24,516	\$ (21)
Net Unrealized Gains (Losses)	333,578	—
Dividend Income	598	—
Interest Income	5,104	489
Interest Expense	(14,117)	(4,597)
<b>Other Investment Income (Loss)</b>	<b>\$349,679</b>	<b>\$ (4,129)</b>

The first nine months of 2009 did not include the results of the net assets acquired from KPE since the Transactions were completed on October 1, 2009. Accordingly, the 2009 amounts reflect investment income for the fourth quarter of 2009 and the remainder of 2009 activity primarily relates to interest expense at our capital markets business. The 2008 amounts primarily reflect interest expense from our capital markets business.

In 2009, net unrealized gains were comprised of \$293.8 million of net unrealized gains from private equity investments, the most significant of which were Dollar General Corporation (NYSE: DG), which went public in the fourth quarter of 2009, NXP Semiconductors N.V. and HCA Inc. (healthcare sector), as well as \$39.8 million of net unrealized gains from non-private equity investments.

#### Economic Net Income (Loss)

Economic net income in our Capital Markets and Principal Activities segment was \$367.8 million for the year ended December 31, 2009 as compared to \$1.2 million for the year ended December 31, 2008. The increase in investment income as described above was the main contributor to the increase in economic net income.

### Segment Partners' Capital

The following table presents our segment statement of financial condition as of December 31, 2010:

	Private Markets Segment	Public Markets Segment	Capital Markets and Principal Activities Segment	Total Reportable Segments
Cash and cash equivalents	\$ 229,729	\$ 10,007	\$ 516,544	\$ 756,280
Investments	—	—	4,831,798	4,831,798
Unrealized carry	523,002	3,001	—	526,003
Other assets	194,424	53,222	39,730	287,376
Total assets	\$ 947,155	\$ 66,230	\$ 5,388,072	\$ 6,401,457
Debt obligations	\$ —	\$ —	\$ 500,000	\$ 500,000
Other liabilities	104,248	10,193	45,837	160,278
Total liabilities	104,248	10,193	545,837	660,278
Noncontrolling interests	(1,750)	766	16,537	15,553
Partners' capital	\$ 844,657	\$ 55,271	\$ 4,825,698	\$ 5,725,626
<b>Total Reportable Segments Partners' Capital</b>				<b>\$ 5,725,626</b>
Plus: Equity impact of Management Holdings Corp. and other				(52,745)
Less: Noncontrolling Interests held by KKR Holdings L.P.				4,346,388
<b>Total KKR &amp; Co. L.P. Partners' Capital</b>				<b>\$ 1,326,493</b>

### LIQUIDITY

We have managed our historical liquidity and capital requirements by focusing on our cash flows before the consolidation of our funds and the effect of normal changes in short term assets and liabilities, which we anticipate will be settled for cash within one year. Our primary cash flow activities on an unconsolidated basis involve: (i) generating cash flow from operations; (ii) generating income from investment activities; (iii) funding capital commitments that we have made to our funds; (iv) funding our growth initiatives; (v) distributing cash flow to our owners; and (vi) borrowings, interest payments and repayments under credit agreements, the Senior Notes and other borrowing arrangements. As of December 31, 2010, we had an available cash balance of approximately \$0.8 billion.

### Sources of Cash

Our principal sources of cash consist of cash and cash equivalents consists of amounts received from: (i) our operating activities, including the fees earned from our funds, managed accounts, portfolio companies, capital markets transactions and other investment products; (ii) realizations on carried interest from our investment funds; (iii) realizations from principal investments; and (iv) borrowings under our credit facilities and other borrowing arrangements described below. In addition, a significant amount of cash and cash equivalents was contributed to the KKR Group Partnerships as part of the Transactions.

Carried interest is distributed to the general partner of a vehicle with a clawback or net loss sharing provision only after all of the following are met: (i) a realization event has occurred (e.g., sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception; and (iii) all of the cost has been returned to investors with respect to investments with a fair value below remaining cost.

We have access to funding under various credit facilities and other borrowing arrangements that we have entered into with major financial institutions or which we receive from the capital markets. The following is a summary of the principal terms of these facilities and other borrowing arrangements:

### Revolving Credit Agreements

As of December 31, 2010, no borrowings were outstanding on any of the revolving credit agreements described below. We may, however, utilize these facilities prospectively in the normal course of our operations.

- On February 26, 2008, Kohlberg Kravis Roberts & Co. L.P. entered into a credit agreement with a major financial institution (the "Corporate Credit Agreement"). The Corporate Credit Agreement provided for revolving borrowings of up to \$1.0 billion, with a \$50.0 million sublimit for swing-line notes and a \$25.0 million sublimit for letters of credit. The facility had a term of five years that expired on February 26, 2013. During 2010, amounts outstanding under the Corporate Credit Agreement ranged from zero to \$98.0 million. On March 1, 2011, the terms of the Corporate Credit Agreement were amended, which reduced availability for borrowings under the facility from \$1.0 billion to \$700 million and extended the maturity, so that the facility now expires on March 1, 2016. In addition, the KKR Group Partnerships became co-borrowers of the facility, and KKR & Co. L.P. and the Issuer (as defined below) of the Senior Notes became guarantors of the Corporate Credit Agreement, together with certain general partners of our private equity funds.
- On February 27, 2008, KKR Capital Markets entered into a revolving credit agreement with a major financial institution (the "KCM Credit Agreement"). The KCM Credit Agreement, as amended, provides for revolving borrowings of up to \$500 million with a \$500 million sublimit for letters of credit. The KCM Credit Agreement has a maturity date of February 27, 2013. In March 2009, the KCM Credit Agreement was amended to reduce the amounts available on revolving borrowings from \$700 million to \$500 million. As a result of this amendment, the counterparty returned approximately \$1.6 million in financing costs. Borrowings under this facility may only be used for our capital markets business. During 2010, there were no amounts outstanding under the KCM Credit Agreement.
- In June 2007, the KPE Investment Partnership entered into a five-year revolving credit agreement with a syndicate of lenders (the "Principal Credit Agreement"). The Principal Credit Agreement provides for up to \$925.0 million of senior secured credit subject to availability under a borrowing base determined by the value of certain investments pledged as collateral security for obligations under the agreement. The borrowing base is subject to certain investment concentration limitations and the value of the investments

constituting the borrowing base is subject to certain advance rates based on type of investment. In September 2009, a wholly owned subsidiary of KKR assumed \$65.0 million of commitments on the Principal Credit Agreement from one of the counterparties to the agreement, which has effectively reduced KKR's availability under the Principal Credit Agreement on a consolidated basis to \$860.0 million. During 2010, amounts outstanding under the Principal Credit Agreement ranged from zero to \$810.0 million.

#### Senior Notes

- On September 29, 2010, KKR Group Finance Co. LLC (the "Issuer"), a subsidiary of KKR Management Holdings Corp. and an indirect subsidiary of KKR & Co. L.P., issued \$500 million aggregate principal amount of 6.375% Senior Notes (the "Senior Notes"), which were issued at a price of 99.584%. The Senior Notes are unsecured and unsubordinated obligations of the Issuer and will mature on September 29, 2020, unless earlier redeemed or repurchased. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors. The Senior Notes bear interest at a rate of 6.375% per annum, accruing from September 29, 2010.

From time to time, we may borrow amounts to satisfy general short-term needs of our business by opening short-term lines of credit with established financial institutions. These amounts are generally repaid within 30 days, at which time such short-term lines of credit would close. There were no such borrowings as of December 31, 2010.

#### Liquidity Needs

We expect that our primary liquidity needs will consist of cash required to: (i) continue to grow our business, including funding our capital commitments made to existing and future funds and any net capital requirements of our capital markets companies; (ii) service debt obligations, as well as any contingent liabilities that may give rise to future cash payments; (iii) fund cash operating expenses; (iv) pay amounts that may become due under our tax receivable agreement with KKR Holdings; and (v) make cash distributions in accordance with our distribution policy. We may also require cash to fund contingent obligations including those under clawback and net-loss sharing arrangements. See "—Liquidity—Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis." We believe that the sources of liquidity described above will be sufficient to fund our working capital requirements for the next 12 months.

The agreements governing our active investment funds generally require the general partners of the funds to make minimum capital commitments to the funds, which usually range from 2% to 4% of a fund's total capital commitments at final closing. In addition, as a result of the Transactions, we are responsible for the uncalled commitments once attributable to KPE's investment partnership as a partner in our private equity funds. The following table presents our uncalled commitments to our active investment funds as of December 31, 2010:

<i>(\$ in thousands)</i>	<i>Uncalled Commitments</i>
<b>Private Markets</b>	
2006 Fund	\$ 362,684
European Fund III	300,540
Asian Fund	117,396
Infrastructure Fund	50,000
E2 Investors (Annex Fund)	30,833
China Growth Fund	8,506
Natural Resources I	5,413
Other Private Markets Commitments	1,264
Total Private Markets Commitments	<u>876,636</u>
<b>Public Markets</b>	
Mezzanine Fund	34,100
Capital Solutions Vehicles	13,000
Total Public Markets Commitments	<u>47,100</u>
Total Uncalled Commitments	<u>\$ 923,736</u>

Historically, we have funded commitments with cash from operations that otherwise would be distributed to our principals. We expect to fund future commitments with available cash, proceeds from realizations of principal assets and other sources of liquidity available to us.

We and our intermediate holding company, a taxable corporation for U.S. federal, state and local income tax purposes, may be required to acquire KKR Group Partnership Units from time to time pursuant to our exchange agreement with KKR Holdings. KKR Management Holdings L.P. made an election under Section 754 of the Internal Revenue Code that will remain in effect for each taxable year in which an exchange of KKR Group Partnership Units for common units occurs, which may result in an increase in our intermediate holding company's share of the tax basis of the assets of the KKR Group Partnerships at the time of an exchange of KKR Group Partnership Units. Certain of these exchanges are expected to result in an increase in our intermediate holding company's share of the tax basis of the tangible and intangible assets of the KKR Group Partnerships, primarily attributable to a portion of the goodwill inherent in our business that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization deductions for tax purposes and therefore reduce the amount of income tax our intermediate holding company 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.

We have entered into a tax receivable agreement with KKR Holdings requiring our intermediate holding company to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding company actually realizes as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding company actually realizes as a result of increases in tax basis that arise due to future payments under the agreement. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. This payment obligation is an obligation of our intermediate holding company and not of either KKR Group Partnership. As such, the cash distributions to common unitholders may vary from holders of KKR Group Partnership Units (held by KKR Holdings and others) to the extent payments are made under the tax receivable agreements to selling holders of KKR Group Partnership Units. As the payments reflect actual tax savings received by KKR entities, there may be a timing difference between the tax savings received by KKR entities and the cash payments to selling holders of KKR Group Partnership Units. No cash payments were made in 2010 under the tax receivable agreement.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

We expect our intermediate holding company to benefit from the remaining 15% of cash savings, if any, in income tax that it realizes. In the event that other of our current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, we expect that each will become subject to a tax receivable agreement with substantially similar terms.

We intend to make quarterly cash distributions in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of our investment management business each year in excess of amounts determined by KKR to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our investment funds and to comply with applicable law and any of our debt instruments or other agreements. KKR does not intend to distribute gains on principal investments, other than certain additional distributions that KKR may determine to make. These additional distributions, if any, are intended to cover

certain tax liabilities, as calculated by KKR. When KKR & Co. L.P. receives distributions from the KKR Group Partnerships, KKR Holdings receives its pro rata share of such distributions from the KKR Group Partnerships. For the purposes of KKR's distribution policy, our distributions are expected to consist of an amount consisting of (i) FRE, (ii) carry distributions received from KKR's investment funds which have not been allocated as part of our carry pool, and (iii) certain tax distributions, if any. This amount is expected to be reduced by (i) corporate and applicable local taxes if any, (ii) noncontrolling interests, and (iii) amounts determined by KKR to be necessary or appropriate for the conduct of our business and other matters as discussed above.

The declaration and payment of any distributions are subject to the discretion of the board of directors of the general partner of KKR & Co. L.P. and the terms of its limited partnership agreement. There can be no assurance that distributions will be made as intended or at all or that such distributions will be sufficient to pay any particular KKR & Co. L.P. unitholder's actual U.S. or non-U.S. tax liability.

### Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis

In the ordinary course of business, we enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of December 31, 2010 on an unconsolidated basis.

Types of Contractual Obligations (\$ in millions)	Payments due by Period				Total
	<1 Year	1-3 Years	3-5 Years	>5 Years	
Uncalled commitments to investment funds <sup>(1)</sup>	\$ 923.7	\$ —	\$ —	\$ —	\$ 923.7
Debt payment obligations <sup>(2)</sup>	—	—	—	500.0	500.0
Interest obligations on debt <sup>(3)</sup>	40.3	66.6	66.6	151.4	324.9
Lease obligations	30.9	50.3	45.6	96.2	223.0
<b>Total</b>	<b>\$ 994.9</b>	<b>\$ 116.9</b>	<b>\$ 112.2</b>	<b>\$ 747.6</b>	<b>\$ 1,971.6</b>

(1) These uncalled commitments represent amounts committed by us to fund a portion of the purchase price paid for each investment made by our investment funds. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See "— Liquidity — Liquidity Needs."

(2) Represents Senior Notes which are presented gross of unamortized discount.

(3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming no prepayments are made and the related debt is held until its final maturity date. Future interest rates have been calculated using rates in effect as of December 31, 2010, including both variable and fixed rates provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.

In the normal course of business, we also enter into contractual arrangements that contain a variety of representations and warranties and that include general indemnification obligations. Our maximum exposure under such arrangements is unknown due to the fact that the exposure would relate to claims that may be made against us in the future. Accordingly, no amounts have been included in our consolidated and combined financial statements as of December 31, 2010 relating to indemnification obligations.

The partnership documents governing our private equity funds generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return amounts to the fund for distribution to investors at the end of the life of the fund. The terms of the Transactions require that our principals remain responsible for any clawback obligation relating to carry distributions received prior to the Transactions up to a maximum of \$223.6 million. Carry distributions arising subsequent to the Transactions may give rise to clawback obligations that will be allocated generally to carry pool participants and the KKR Group Partnerships in accordance with the terms of the instruments governing the KKR Group Partnerships. As of December 31, 2010, assuming that all applicable private equity funds were liquidated at no value, the amount of carried interest distributed that would be subject to this clawback provision would be \$697.0 million, of which \$473.4 million would be borne by KKR and \$223.6 million would be borne by our principals. Had the investments in such funds been liquidated at their December 31, 2010 fair values, the clawback obligation would have been \$61.5 million, of which \$55.9 million is recorded in due from affiliates and \$5.6 million is due from noncontrolling interest holders.

The instruments governing certain of our private equity funds may also include a "net loss sharing provision," that, if triggered, may give rise to a contingent obligation that may require the general partners to contribute capital to the fund, to fund 20% of the net losses on investments attributed to the limited partners of such fund. In connection with the "net loss sharing provisions," certain of our private equity vehicles allocate a greater share of their investment losses to us relative to the amounts contributed by us to those vehicles. In these vehicles, such losses would be required to be paid by us to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had been previously distributed. Based on the fair market values as of December 31, 2010, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the net loss sharing obligation would have been approximately \$1,094.0 million as of December 31, 2010.

Unlike the "clawback" provisions, the KKR Group Partnerships will be responsible for amounts due under net loss sharing arrangements and will indemnify our principals for personal guarantees that they have provided with respect to such amounts.

### Contractual Obligations, Commitments and Contingencies on a Consolidated Basis

In the ordinary course of business, we and our consolidated funds enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of December 31, 2010. This table differs from the table presented above which sets forth contractual commitments on an unconsolidated basis principally because this table includes the obligations of our consolidated funds.

Types of Contractual Obligations (\$ in millions)	Payments due by Period				Total
	<1 Year	1-3 Years	3-5 Years	>5 Years	
Uncalled commitments to investment funds <sup>(1)</sup>	\$14,074.7	\$ —	\$ —	\$ —	\$14,074.7
Debt payment obligations <sup>(2)</sup>	171.4	—	817.6	500.0	1,489.0
Interest obligations on debt <sup>(3)</sup>	55.1	102.2	192.2	151.4	500.9
Lease obligations	30.9	50.3	45.6	96.2	223.0
<b>Total</b>	<b>\$ 14,332.1</b>	<b>\$ 152.5</b>	<b>\$ 1,055.4</b>	<b>\$ 747.6</b>	<b>\$16,287.6</b>

- (1) These uncalled commitments represent amounts committed by us and our fund investors to fund the purchase price paid for each investment made by our investment funds. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See "—Liquidity—Liquidity Needs."
- (2) Certain of our consolidated fund investment vehicles have entered into financing arrangements in connection with specific investments with the objective of enhancing returns. Such financing arrangements include \$796.4 million of financing provided through total return swaps and \$192.6 million of financing provided through a term loan and revolving credit facilities. These financing arrangements have been entered into with the objective of enhancing returns and are not direct obligations of the general partners of our private equity funds or our management companies. The amount for Senior Notes offering is presented gross of unamortized discount.
- (3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming no prepayments are made and the related debt is held until its final maturity date. Future interest rates have been calculated using rates in effect as of December 31, 2010, including both variable and fixed rates provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.

### Off Balance Sheet Arrangements

Other than contractual commitments and other legal contingencies incurred in the normal course of our business, we do not have any off-balance sheet financings or liabilities.

### Consolidated Statement of Cash Flows

The accompanying consolidated and combined statements of cash flows include the cash flows of our consolidated funds despite the fact that we have only a minority economic interest in those funds. The assets of consolidated funds, on a gross basis, are substantially larger than the assets of our business and, accordingly, have a substantial effect on the cash flows reflected in our combined statements of cash flows. The primary cash flow activities of our consolidated funds involve: (i) raising capital from fund investors; (ii) using the capital of fund investors to make investments; (iii) financing certain investments with indebtedness; (iv) generating cash flows through the realization of investments; and (v) distributing cash flows from the realization of investments to fund investors. Because our consolidated funds are treated as investment companies for accounting purposes, these cash flow amounts are included in our cash flows from operations.

#### Net Cash Provided by (Used in) Operating Activities

Our net cash provided by (used in) operating activities was \$0.7 billion, \$(0.3) billion and \$(2.4) billion during the years December 31, 2010, 2009 and 2008, respectively. These amounts primarily included: (i) proceeds from sales of investments net of purchases of investments by our funds of \$0.3 billion, \$(1.2) billion, and \$(1.9) billion during the years ended December 31, 2010, 2009 and 2008, respectively; (ii) net realized gains (losses) on investments of \$2.4 billion, \$(0.3) billion and \$0.3 billion during the years ended December 31, 2010, 2009 and 2008, respectively; and (iii) change in unrealized gains on investments of \$5.3 billion, \$7.8 billion and \$(13.2) billion during the years ended December 31, 2010, 2009 and 2008, respectively. These amounts are reflected as operating activities in accordance with investment company accounting.

#### Net Cash Provided by (Used in) Investing Activities

Our net cash provided by (used in) investing activities was \$(1.3) million, \$(43.0) million and \$(61.7) million during the years ended December 31, 2010, 2009 and 2008, respectively. Our investing activities included the purchases of furniture, equipment and leasehold improvements of \$13.1 million, \$21.1 million and \$13.1 million, as well as a (decrease) increase in restricted cash and cash equivalents that primarily funds collateral requirements of \$(11.8) million, \$21.9 million and \$4.5 million during the years ended December 31, 2010, 2009 and 2008, respectively.

### Net Cash Provided by (Used in) Financing Activities

Our net cash provided by (used in) financing activities was \$(0.5) billion, \$0.7 billion and \$2.4 billion during the years ended December 31, 2010, 2009 and 2008, respectively. Our financing activities primarily included: (i) contributions net of distributions, made to noncontrolling interests, of \$0.1 billion, \$0.8 billion and \$2.8 billion during the years ended December 31, 2010, 2009 and 2008, respectively; (ii) repayment of debt obligations net of proceeds received of \$0.6 billion, \$0.3 billion and \$0.2 billion during the years ended December 31, 2010, 2009 and 2008, respectively; and (iii) distributions net of contributions to our equity holders of \$0.1 billion, \$0.2 billion and \$0.1 billion during the years ended December 31, 2010, 2009 and 2008, respectively.

### CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated and combined financial statements in accordance with GAAP requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of fees, expenses and investment income. Our management bases these estimates and judgments on available information, historical experience and other assumptions that we believe are reasonable under the circumstances. However, these estimates, judgments and assumptions are often subjective and may be impacted negatively based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from those estimated, judged or assumed, revisions are included in the consolidated and combined financial statements in the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying estimates, judgments or assumptions. Please see the notes to the consolidated and combined financial statements included elsewhere in this report for further detail regarding our critical accounting policies.

### Principles of Consolidation

Our policy is to consolidate (i) those entities in which we hold a majority voting interest or have majority ownership and control over significant operating, financial and investing decisions of the entity including those KKR funds in which the general partner is presumed to have control or (ii) entities determined to be variable interest entities ("VIEs") for which we are considered the primary beneficiary.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The majority of the entities consolidated by us are comprised of: (i) those entities in which we have majority ownership and have control over significant operating, financial and investing decisions and (ii) the consolidated KKR funds, which are those entities in which we hold substantive, controlling general partner or managing member interests. With respect to the consolidated KKR funds, we generally have operational discretion and control, and limited partners have no substantive rights to impact ongoing governance and operating activities of the fund.

The consolidated KKR funds do not consolidate their majority owned and controlled investments in portfolio companies. Rather, those investments are accounted for as investments and carried at fair value as described below.

The KKR funds are consolidated notwithstanding the fact that we have only a minority economic interest in those funds. The consolidated and combined financial statements reflect the assets, liabilities, revenues, expenses, investment income and cash flows of the consolidated KKR funds on a gross basis, and the majority of the economic interests in those funds, which are held by third party investors, are attributed to noncontrolling interests in the accompanying consolidated and combined financial statements. Substantially all of the management fees and certain other amounts earned by us from those funds are eliminated in consolidation. However, because the eliminated amounts are earned from, and funded by, noncontrolling interests, our attributable share of the net income from those funds is increased by the amounts eliminated. Accordingly, the elimination in consolidation of such amounts has no effect on net income (loss) attributable to KKR or KKR's partners' capital.

Noncontrolling interests represent the ownership interests held by entities or persons other than KKR.

### Fair Value of Investments

Our consolidated funds are treated as investment companies under investment company accounting guidance for the purposes of GAAP and, as a result, reflect their investments on the consolidated and combined statement of financial condition at fair value, with unrealized gains or losses resulting from changes in fair value reflected as a component of investment income in the consolidated and combined statements of operations. We have retained the specialized accounting of the consolidated funds.

We measure and report our investments in accordance with fair value accounting guidance, which establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

**Level I**—Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include publicly listed equities and publicly listed derivatives. In addition, securities sold, but not yet purchased and call options are included in Level I. We do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably affect the quoted price. We classified 26.0% of total investments measured and reported at fair value as Level I at December 31, 2010.

**Level II**—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. 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. Investments which are generally included in this category include corporate bonds and loans, convertible debt indexed to publicly listed securities and certain over-the-counter derivatives. We classified 8.5% of total investments measured and reported at fair value as Level II at December 31, 2010.

**Level III**—Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include private portfolio companies held through our private equity funds. We classified 65.5% of total investments measured and reported at fair value as Level III at December 31, 2010. The valuation of our Level III investments at December 31, 2010 represents management's best estimate of the amounts that we would anticipate realizing on the sale of these investments at such date.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy 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 we consider factors specific to the investment.

When determining fair values of investments, we use the last reported market price as of the statement of financial condition date for investments that have readily observable market prices. If no sales occurred on such day, we use the "bid" price at the close of business on that date and, if sold short, the "asked" price at the close of business on that date day. Forward contracts are valued based on market rates or prices obtained from recognized financial data service providers.

The majority of our private equity investments are valued utilizing unobservable pricing inputs. Management's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors. We generally employ two valuation methodologies when determining the fair value of a private equity investment. The first methodology is typically a market multiples approach that considers a specified financial measure (such as EBITDA) and recent public market and private transactions and other available measures for valuing comparable companies. Other factors such as the applicability of a control premium or illiquidity discount, the presence of significant unconsolidated assets and liabilities and any favorable or unfavorable tax attributes are also considered in arriving at a market multiples valuation. The second methodology utilized is typically a discounted cash flow approach. In this approach, we incorporate significant assumptions and judgments in determining the most likely buyer, or market participant for a hypothetical sale, which might include an initial public offering, private equity investor, strategic buyer or a transaction consummated through a combination of any of the above. Estimates of assumed growth rates, terminal values, discount rates, capital structure and other factors are employed in this approach. The ultimate fair value recorded for a particular investment will generally be within the range suggested by the two methodologies, adjusted for issues related to achieving liquidity including size, registration process, corporate governance structure, timing, an initial public offering discount and

other factors, if applicable. As discussed above, we utilize several unobservable pricing inputs and assumptions in determining the fair value of our private equity investments. These unobservable pricing inputs and assumptions may differ by investment and in the application of our valuation methodologies. Our reported fair value estimates could vary materially if we had chosen to incorporate different unobservable pricing inputs and other assumptions.

Approximately 26.0%, or \$9.5 billion, and 22.6%, or \$6.6 billion, of the value of our investments were valued using quoted market prices, which have not been adjusted, as of December 31, 2010 and December 31, 2009, respectively.

Approximately 74.0%, or \$27.0 billion, and 77.4%, or \$22.4 billion, of the value of our investments were valued in the absence of readily observable market prices as of December 31, 2010 and December 31, 2009, respectively. The majority of these investments were valued using internal models with significant unobservable market parameters and our determinations of the fair values of these investments may differ materially from the values that would have resulted if readily observable market prices had existed. Additional external factors may cause those values, and the values of investments for which readily observable market prices exist, to increase or decrease over time, which may create volatility in our earnings and the amounts of assets and partners' capital that we report from time to time.

Our calculations of the fair values of private company investments were reviewed by an independent valuation firm, who provided third party valuation assistance to us, which consisted of certain limited procedures that we identified and requested it to perform. Upon completion of such limited procedures, they concluded that the fair value, as determined by us, of those investments subjected to their limited procedures was reasonable. The limited procedures did not involve an audit, review, compilation or any other form of examination or attestation under generally accepted auditing standards. The general partners of our funds are responsible for determining the fair value of investments in good faith, and the limited procedures performed by an independent valuation firm are supplementary to the inquiries and procedures that the general partner of each fund is required to undertake to determine the fair value of the investments.

Changes in the fair value of the investments of our consolidated private equity funds may impact the net gains (losses) from investment activities of our private equity funds as described under "—Key Financial Measures—Investment Income (Loss)—Net Gains (Losses) from Investment Activities." Based on the investments of our private equity funds as of December 31, 2010, we estimate that an immediate 10% decrease in the fair value of the funds' investments generally would result in a 10% immediate change in net gains (losses) from the funds' investment activities (including carried interest when applicable), regardless of whether the investment was valued using observable market prices or management estimates with significant unobservable pricing inputs. However, we estimate the impact that the consequential decrease in investment income would have on net income attributable to KKR would be significantly less than the amount described above, given that a majority of the change in fair value would be attributable to noncontrolling interests.

As of December 31, 2010, private equity investments which represented greater than 5% of the net assets of consolidated private equity funds included: (i) Dollar General valued at \$3.4 billion; (ii) Alliance Boots valued at \$2.5 billion; and (iii) HCA Inc. valued at \$2.4 billion.

The majority of the value of the investments in our consolidated fixed income funds were valued using observable market parameters, which may include quoted market prices, as of December 31, 2010 and December 31, 2009. Quoted market prices, when used, are not adjusted.

### Revenue Recognition

Fees consist primarily of (i) monitoring and transaction fees that we receive from our portfolio companies and capital markets activities and (ii) management and incentive fees that we receive directly from our unconsolidated funds. These fees are based upon the contractual terms of the management and other agreements that we enter into with the applicable funds, portfolio companies and third parties. We recognize fees in the period during which the related services are performed and the amounts have been contractually earned in accordance with the relevant management or other agreements. Incentive fees are accrued either annually or quarterly after all contingencies have been removed.

KKR's private equity funds require the management company to refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, a liability to the fund's limited partners is recorded and revenue is reduced for the amount of the carried interest recognized, not to exceed 20% of the management fees earned. As of December 31, 2010, the amount subject to refund for which no liability has been recorded approximates \$58.7 million as a result of certain funds not yet recognizing sufficient carried interests. The refunds to the limited partners are paid, and the liabilities relieved, at such time that the underlying investments are sold and the associated carried interests are realized. In the event that a fund's carried interest is not sufficient to cover all or a portion of the amount that represents 20% of the earned management fees, these fees would not be returned to the funds' limited partners, in accordance with the respective fund agreements.

### Recognition of Investment Income

Investment income consists primarily of the unrealized and realized gains (losses) on investments (including the impacts of foreign currency on non-dollar denominated investments), dividend and interest income received from investments and interest expense incurred in connection with investment activities. Unrealized gains or losses result from changes in the fair value of our funds' investments during a period as well as the reversal of unrealized gains or losses in connection with realization events. Upon disposition of an investment, previously recognized unrealized gains or losses are reversed and a corresponding realized gain or loss is recognized in the current period. While this reversal generally does not significantly impact the net amounts of gains (losses) that we recognize from investment activities, it affects the manner in which we classify our gains and losses for reporting purposes.

Due to the consolidation of the majority of our funds, the share of our funds' investment income that is allocable to our carried interests and capital investments is not shown in the consolidated and combined financial statements. Instead, the investment income that KKR retains in its net income, after allocating amounts to noncontrolling interests, represents the portion of its investment income that is allocable to us. Because the substantial majority of our funds are consolidated and because we hold only a minority economic interest in our funds' investments, our share of the investment income generated by our funds' investment activities is significantly less than the total amount of investment income presented in its consolidated and combined financial statements.

We recognize investment income with respect to our carried interests in investments of our private equity funds and co-investment vehicles, the capital invested by or on behalf of the general partners of our private equity funds and the noncontrolling interests that third-party fund investors hold in our consolidated funds.

### Recognition of Carried Interests in Statement of Operations

Carried interests entitle the general partner of a fund to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduce noncontrolling interests' attributable share of those earnings. Amounts earned pursuant to carried interests in the KKR funds are included as investment income in Net Gains (Losses) from Investment Activities and are earned by the general partner of those funds to the extent that cumulative investment returns are positive. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reduced and reflected as investment losses. Carried interest is recognized based on the contractual formula set forth in the instruments governing the fund as if the fund was terminated at the reporting date with the then estimated fair values of the investments realized. Due to the extended durations of our private equity funds, management believes that this approach results in income recognition that best reflects our periodic performance in the management of those funds.

The instruments governing our private equity funds generally include a "clawback" or, in certain instances, a "net loss sharing" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return or contribute amounts to the fund for distribution to investors at the end of the life of the fund.

### Clawback Provision

Under a "clawback" provision, upon the liquidation of a private equity fund, the general partner is required to return, on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled.

Prior to the Transactions, certain KKR principals who received carried interest distributions with respect to the private equity funds had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of the private equity funds to repay amounts to fund limited partners pursuant to the general partners' clawback obligations. The terms of the Transactions require that KKR principals remain responsible for clawback obligations relating to carry distributions received prior to the Transactions up to a maximum of \$223.6 million.

Carry distributions arising subsequent to the Transactions are allocated generally to carry pool participants and KKR in accordance with the terms of the instruments governing the KKR Group Partnerships.

### Net Loss Sharing Provision

The instruments governing certain of our private equity funds may also include a "net loss sharing provision," that, if triggered, may give rise to a contingent obligation that may require the general partners to contribute capital to the fund, to fund 20% of the net losses on investments. In connection with the "net loss sharing provisions," certain of our private equity funds allocate a greater share of their investment losses to us relative to the amounts contributed by us to those vehicles. In these vehicles, such losses would be required to be paid by us to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed. Unlike the "clawback" provisions, we will be responsible for amounts due under net loss sharing arrangements and will indemnify our principals for personal guarantees that they have provided with respect to such amounts.

### Recent Accounting Pronouncements

On January 1, 2010, KKR adopted guidance issued by the Financial Accounting Standards Board ("FASB") related to VIEs. The amendments significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity's involvement with such VIEs. The guidance provides a limited scope deferral for a reporting entity's interest in an entity that meets all of the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, Investment Companies, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, Investment Companies, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset backed financing entity or an entity that was formerly considered a qualifying special purpose entity. The reporting entity is required to perform a consolidation analysis for entities that qualify for the deferral in accordance with previously issued guidance on VIEs. Prior to the revision of the consolidation rules, KKR consolidated a substantial majority of its investment vehicles except for KKR Strategic Capital Overseas Fund Ltd., KFN, KKR Index Fund Investments L.P., carry co-investment vehicles and 8 North America Investor L.P. With respect to the unconsolidated investment vehicles, these entities have qualified for the deferral of the revised consolidation rules and the consolidation analysis was based on the previous consolidation rules. In addition, in connection with the adoption of the new consolidation rules, KKR considered whether it was appropriate to consolidate five structured finance vehicle subsidiaries of KFN. With respect to these entities, the primary beneficiary was determined to be KFN, because KFN has the power to direct the activities that most significantly impact these entities' economic performance and KFN has both the obligation to absorb losses of these entities and the right to receive benefits from these entities that could potentially be significant to these entities. See Note 11, "Related Party Transactions" for financial information related to KFN. Accordingly, the revised consolidation rules have not resulted in the consolidation or deconsolidation of any entities. As a result, KKR consolidates the same entities both before and after adopting these new rules.

The revised guidance also enhances the disclosure requirements for a reporting entity's involvement with VIEs, including presentation on the consolidated statements of financial condition of assets and liabilities of consolidated VIEs which meet the separate presentation criteria and disclosure of assets and liabilities recognized in the consolidated statements of financial condition and the maximum exposure to loss for those VIEs in which a reporting entity is determined to not be the primary beneficiary but in which it has a variable interest. Disclosures relating to KKR's involvement with VIEs are disclosed within this Note.

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires additional disclosure on transfers in and out of Levels I and II fair value measurements in the fair value hierarchy and the reasons for such transfers. In addition, for fair value measurements using significant unobservable inputs (Level III), the reconciliation of beginning and ending balances shall be presented on a gross basis, with separate disclosure of gross purchases, sales, issuances and settlements and transfers in and transfers out of Level III. The new guidance also requires enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, an entity is required to provide further disclosures on valuation techniques and inputs used to measure fair value for fair value measurements that fall in either Level II or Level III. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures

about purchases, sales, issuances, and settlements in the roll forward of activity in Level III fair value measurements, which are effective for fiscal years beginning after December 15, 2010. KKR adopted the guidance, excluding the reconciliation of Level III activity. As the guidance is limited to enhanced disclosures, adoption did not have an impact on KKR's financial statements.

## QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risks primarily relates to our role as general partner or manager of our funds and sensitivities to movements in the fair value of their investments, including the effect that those movements have on the management fees and carried interests that we receive. We have an increased exposure to market risks as a result of the principal assets. The fair value of investments may fluctuate in response to changes in the value of securities, foreign currency exchange rates and interest rates.

### Market Risk

Our funds hold investments that are reported at fair value. Net changes in the fair value of investments impact the net gains from investments in our combined statements of operations. Based on the investments of our funds as of December 31, 2010, we estimate that a 10% decrease in the fair value of our funds' investments would result in a corresponding reduction in investment income. However, we estimate the impact that the consequential decrease in investment income would have on our reported income attributable to Group Holdings would be significantly less than the amount presented above, given that a substantial majority of the change in fair value would be attributable to noncontrolling interests.

Our base management fees in our private equity funds are calculated based on the amount of capital committed or invested by a fund, as described under "Business—Our Segments—Private Markets" in our Annual Report on Form 10-K. In the case of our Public Markets business, management fees are often calculated based on the average NAV of the fund, vehicle, or specialty finance company, for that particular period. To the extent that base management fees are calculated based on the NAV of the fund's investments, the amount of fees that we may charge will be increased or decreased in direct proportion to the effect of changes in the fair value of the fund's investments. The proportion of our management and other amounts that are based on NAV depends on the number and type of funds in existence. Currently, a majority of our private equity funds are based on a percentage of committed or invested capital.

### Securities Market Risk

Our investment funds make certain investments in portfolio companies whose securities are publicly traded. The market prices of securities may be volatile and are likely to fluctuate due to a number of factors beyond our control. These factors include actual or anticipated fluctuations in the quarterly and annual results of such companies or of other companies in the industries in which they operate, market perceptions concerning the availability of additional securities for sale, general economic, social or political developments, industry conditions, changes in government regulation, shortfalls in operating results from levels forecasted by securities analysts, the general state of the securities markets and other material events, such as significant management changes, re-financings, acquisitions and dispositions. In addition, although our private equity funds primarily hold investments in portfolio companies whose securities are not publicly traded, the value of these investments may also fluctuate due to similar factors beyond our control as described above for portfolio companies whose securities are publicly traded.

### Exchange Rate Risk

Our private equity funds make investments from time to time in currencies other than those in which their capital commitments are denominated. Those investments expose us and our fund investors to the risk that the value of the investments will be affected by changes in exchange rates between the currency in which the capital commitments are denominated and the currency in which the investments are made. Our policy is to minimize these risks by employing hedging techniques, including using foreign currency options and foreign exchange contracts to reduce exposure to future changes in exchange rates when our funds have invested a meaningful amount of capital in currencies other than the currencies in which their capital commitments are denominated.

Because most of the capital commitments to our funds are denominated in U.S. dollars, our primary exposure to exchange rate risk relates to movements in the value of exchange rates between the U.S. dollar and other currencies in which our investments are denominated (primarily euros, British pounds, Indian rupees and Australian dollars). We estimate that a simultaneous parallel movement by 10% in the exchange rates between the U.S. dollar and all of the major foreign currencies in which our funds' investments were denominated as of December 31, 2010 would result in net gains or losses from investment activities of our funds of \$844.8 million. However, we estimate that the effect on its income before taxes and its net income from such a change would be significantly less than the amount presented above, because a substantial majority of the gain or loss would be attributable to noncontrolling interests in our funds.

### Credit Risk

We are party to agreements providing for various financial services and transactions that contain an element of risk in the event that the counterparties are unable to meet the terms of such agreements. In these agreements, we depend on these counterparties to make payment or otherwise perform. We generally endeavor to minimize our risk of exposure by limiting the counterparties with which we enter into financial transactions to reputable financial institutions. In addition, availability of financing from financial institutions may be uncertain due to market events, and we may not be able to access these financing markets.

### Interest Rate Risk

We have debt obligations that include revolving credit agreements and certain investment financing arrangements structured through the use of total return swaps which effectively convert third party capital contributions into our borrowings. These debt obligations accrue interest at variable rates, and changes in these rates would affect the amount of interest payments that we would have to make, impacting future earnings and cash flows. Based on our debt obligations payable at December 31, 2010 (inclusive of debt obligations of our consolidated funds), we estimate that interest expense relating to variable rates would increase on an annual basis by \$9.9 million in the event interest rates were to increase by 100 basis points. The estimated impact on interest expense is solely on the debt obligations of our consolidated funds.

# Report of Independent Registered Public Accounting Firm

## TO THE BOARD OF DIRECTORS AND UNITHOLDERS OF KKR & CO. L.P.:

We have audited the accompanying consolidated and combined statements of financial condition of KKR & Co. L.P. (the "Company") as of December 31, 2010 and 2009, and the related consolidated and combined statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2010. These consolidated and combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated and combined financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated and combined financial statements present fairly, in all material respects, the financial position of KKR & Co. L.P. as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the consolidated and combined financial statements, the financial statements include investments valued at \$23.9 billion (62% of total assets) and \$19.4 billion (64% of total assets) as of December 31, 2010 and 2009, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on the factors described in Note 2.

**Deloitte & Touche LLP**  
New York, New York  
March 7, 2011

# Consolidated and Combined Statements of Financial Condition

(Amounts in Thousands, Except Unit Data) December 31,

	2010	2009
<b>Assets</b>		
Cash and Cash Equivalents	\$ 738,693	\$ 546,739
Cash and Cash Equivalents Held at Consolidated Entities	695,902	282,091
Restricted Cash and Cash Equivalents	60,482	72,298
Investments, at Fair Value	36,449,770	28,972,943
Due from Affiliates	136,556	123,988
Other Assets	309,754	223,052
<b>Total Assets</b>	<b>\$ 38,391,157</b>	<b>\$ 30,221,111</b>
<b>Liabilities and Equity</b>		
Debt Obligations	\$ 1,486,960	\$ 2,060,185
Due to Affiliates	18,047	87,741
Accounts Payable, Accrued Expenses and Other Liabilities	886,108	711,704
<b>Total Liabilities</b>	<b>2,391,115</b>	<b>2,859,630</b>
<b>Commitments and Contingencies</b>		
<b>Equity</b>		
KKR & Co. L.P. Partners' Capital (212,770,091 and 204,902,226 common units issued and outstanding as of December 31, 2010 and December 31, 2009, respectively)	1,324,530	1,012,656
Accumulated Other Comprehensive Income	1,963	1,193
Total KKR & Co. L.P. Partners' Capital	1,326,493	1,013,849
Noncontrolling Interests in Consolidated Entities	30,327,161	23,275,272
Noncontrolling Interests held by KKR Holdings L.P.	4,346,388	3,072,360
<b>Total Equity</b>	<b>36,000,042</b>	<b>27,361,481</b>
<b>Total Liabilities and Equity</b>	<b>\$ 38,391,157</b>	<b>\$ 30,221,111</b>

See notes to consolidated and combined financial statements.

# Consolidated and Combined Statements of Operations

(Amounts in Thousands, Except Unit and Per Unit Data) For the Years Ended December 31,

	2010	2009	2008
<b>Revenues</b>			
Fees	\$ 435,386	\$ 331,271	\$ 235,181
<b>Expenses</b>			
Employee Compensation and Benefits	1,344,455	838,072	149,182
Occupancy and Related Charges	39,692	38,013	30,430
General, Administrative and Other	311,147	264,396	179,673
Fund Expenses	67,369	55,229	59,103
<b>Total Expenses</b>	<b>1,762,663</b>	<b>1,195,710</b>	<b>418,388</b>
<b>Investment Income (Loss)</b>			
Net Gains (Losses) from Investment Activities	7,755,090	7,505,005	(12,944,720)
Dividend Income	1,250,293	186,324	75,441
Interest Income	226,824	142,117	129,601
Interest Expense	(53,099)	(79,638)	(125,561)
<b>Total Investment Income (Loss)</b>	<b>9,179,108</b>	<b>7,753,808</b>	<b>(12,865,239)</b>
<b>Income (Loss) Before Taxes</b>	<b>7,851,831</b>	<b>6,889,369</b>	<b>(13,048,446)</b>
<b>Income Taxes</b>	<b>75,360</b>	<b>36,998</b>	<b>6,786</b>
<b>Net Income (Loss)</b>	<b>7,776,471</b>	<b>6,852,371</b>	<b>(13,055,232)</b>
Less: Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities	6,544,016	6,119,382	(11,850,761)
Less: Net Income (Loss) Attributable to Noncontrolling Interests held by KKR Holdings L.P.	899,277	(116,696)	—
<b>Net Income (Loss) Attributable to KKR &amp; Co. L.P.</b>	<b>\$ 333,178</b>	<b>\$ 849,685</b>	<b>\$ (1,204,471)</b>

	October 1, 2009 through December 31, 2009
<b>Net Loss Attributable to KKR &amp; Co. L.P.</b>	<b>\$ (78,221)</b>
<b>Net Income (Loss) Attributable to KKR &amp; Co. L.P. Per Common Unit</b>	
Basic	\$ 1.62 \$ (.38)
Diluted	\$ 1.62 \$ (.38)
<b>Weighted Average Common Units Outstanding</b>	
Basic	206,031,682 204,902,226
Diluted	206,039,244 204,902,226

See notes to consolidated and combined financial statements.

# Consolidated and Combined Statements of Changes in Equity

(Amounts in Thousands, Except Unit Data)	KKR & Co. L.P.						Total Comprehensive Income	Total Equity
	Common Units	Partners' Capital	Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Entities	Noncontrolling Interests held by KKR Holdings L.P.			
<b>January 1, 2008</b>	—	\$ 1,507,694	\$ 9,652	\$ 28,749,814	\$ —		\$ 30,267,160	
Comprehensive Income:								
Net Income (Loss)		(1,204,471)		(11,850,761)		\$(13,055,232)	(13,055,232)	
Other Comprehensive Income— Currency Translation Adjustment			(8,407)	(18)		(8,425)	(8,425)	
Total Comprehensive Income						<u>\$(13,063,657)</u>	<u>(13,063,657)</u>	
Purchase of Noncontrolling Interests in Consolidated Entities by KKR Group Holdings L.P.				(6,285)			(6,285)	
Capital Contributions		103,368		3,942,547			4,045,915	
Capital Distributions		(255,957)		(1,136,819)			(1,392,776)	
<b>Balance at December 31, 2008</b>	—	150,634	1,245	19,698,478	—		19,850,357	
Comprehensive Income:								
Net Income (Loss)		927,906		4,674,727		\$ 5,602,633	5,602,633	
Other Comprehensive Income— Currency Translation Adjustment			2,417	5		2,422	2,422	
Total Comprehensive Income						<u>\$ 5,605,055</u>	<u>5,605,055</u>	
Capital Contributions		35,499		1,935,044			1,970,543	
Capital Distributions		(320,760)		(993,288)			(1,314,048)	
<b>Balance at September 30, 2009</b>	—	793,279	3,662	25,314,966	—		26,111,907	
Non-Contributed Assets (1996 Fund L.P.)		(146,448)		(761,236)			(907,684)	
Retained Interests		(368,909)	(36)	464,225			95,280	
Reallocation of Net Assets from KKR PEI Investments L.P.		3,029,070		(3,029,070)				
Contributions of Net Assets of KPE		450,851					450,851	
Reallocation of Interests to KKR Holdings L.P.		(2,630,491)	(2,538)		2,633,029			
Deferred Tax Effects Resulting from the Transactions		(36,547)					(36,547)	
<b>Balance at October 1, 2009</b>	204,902,226	1,090,805	1,088	21,988,885	2,633,029		25,713,807	
Comprehensive Income:								
Net Income (Loss)		(78,221)		1,444,655	(116,696)	\$ 1,249,738	1,249,738	
Other Comprehensive Income— Currency Translation Adjustment			105	3	245	353	353	
Total Comprehensive Income						<u>\$ 1,250,091</u>	<u>1,250,091</u>	
Equity Based Compensation					562,373		562,373	
Capital Contributions		72		470,154	169		470,395	
Capital Distributions				(628,425)	(6,760)		(635,185)	
<b>Balance at December 31, 2009</b>	204,902,226	1,012,656	1,193	23,275,272	3,072,360		27,361,481	
<b>January 1, 2010</b>	204,902,226	1,012,656	1,193	23,275,272	3,072,360		27,361,481	
Comprehensive Income:								
Net Income (Loss)		333,178		6,544,016	899,277	\$ 7,776,471	7,776,471	
Other Comprehensive Income— Currency Translation Adjustment			683	9	286	978	978	
Total Comprehensive Income						<u>\$ 7,777,449</u>	<u>7,777,449</u>	
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	7,867,865	69,940	59		(69,999)		—	
Deferred Tax Effects Resulting from Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units		674	28				702	
Equity Based Compensation					824,193		824,193	
Capital Contributions				4,954,676	40,671		4,995,347	
Capital Distributions		(91,918)		(4,446,812)	(420,400)		(4,959,130)	
<b>Balance at December 31, 2010</b>	212,770,091	\$ 1,324,530	\$ 1,963	\$ 30,327,161	\$ 4,346,388		<u>\$36,000,042</u>	

See notes to consolidated and combined financial statements.

# Consolidated and Combined Statements of Cash Flows

(Amounts in Thousands) For the Years Ended December 31,

	2010	2009	2008
<b>Cash Flows from Operating Activities</b>			
Net Income (Loss)	\$ 7,776,471	\$ 6,852,371	\$(13,055,232)
<b>Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Non-Cash Equity Based Payments	824,193	562,373	—
Net Realized (Gains) Losses on Investments	(2,411,510)	314,407	(253,410)
Change in Unrealized (Gains) Losses on Investments	(5,343,580)	(7,819,412)	13,198,130
Other Non-Cash Amounts	(20,978)	(1,397)	2,387
Cash Flows Due to Changes in Operating Assets and Liabilities:			
Change in Cash and Cash Equivalents Held at Consolidated Entities	(416,254)	690,371	(565,604)
Change in Due from/(to) Affiliates	(119,585)	(21,830)	14,080
Change in Other Assets	(79,616)	(21,826)	87,338
Change in Accounts Payable, Accrued Expenses and Other Liabilities	266,974	344,137	28,724
Investments Purchased	(5,396,703)	(2,795,658)	(3,438,323)
Cash Proceeds from Sale of Investments	5,653,984	1,549,152	1,535,754
Net Cash Provided (Used) by Operating Activities	733,396	(347,312)	(2,446,156)
<b>Cash Flows from Investing Activities</b>			
Change in Restricted Cash and Cash Equivalents	11,816	(21,909)	(4,471)
Purchase of Noncontrolling Interests	—	—	(44,171)
Purchase of Furniture, Equipment and Leasehold Improvements	(13,081)	(21,050)	(13,104)
Net Cash Provided (Used) by Investing Activities	(1,265)	(42,959)	(61,746)
<b>Cash Flows from Financing Activities</b>			
Distributions to Noncontrolling Interests in Consolidated Entities	(4,446,812)	(1,586,300)	(1,136,819)
Contributions from Noncontrolling Interests in Consolidated Entities	4,954,676	2,405,198	3,942,547
Distributions to KKR Holdings L.P.	(420,400)	(6,760)	—
Contributions from KKR Holdings L.P.	40,671	169	—
Cash Attributed to Non-Contributed Assets (1996 Fund L.P.)	—	(20,241)	—
Contributions from KKR Private Equity Investors, L.P.	—	470,263	—
Distributions to Partners	(91,918)	(211,068)	(250,358)
Contributions from Partners	—	35,571	103,368
Proceeds from Debt Obligations	652,806	503,462	813,809
Repayment of Debt Obligations	(1,225,420)	(852,503)	(1,018,389)
Deferred Financing Cost (Incurred) Returned	(3,780)	573	(19,655)
Net Cash Provided (Used) by Financing Activities	(540,177)	738,364	2,434,503
<b>Net Change in Cash and Cash Equivalents</b>			
Cash and Cash Equivalents, Beginning of Year	191,954	348,093	(73,399)
Cash and Cash Equivalents, End of Year	\$ 738,693	\$ 546,739	\$ 198,646

(continued)

CONSOLIDATED AND COMBINED  
STATEMENTS OF CASH FLOWS (CONTINUED)

(Amounts in Thousands) For the Years Ended December 31,

	2010	2009	2008
<b>Supplemental Disclosures of Cash Flow Information</b>			
Payments for Interest	\$ 66,110	\$ 40,256	\$ 70,952
Payments for Income Taxes	\$ 91,112	\$ 8,454	\$ 4,539
<b>Supplemental Disclosures of Non-Cash Activities</b>			
Non-Cash Debt Financing/Purchase of Investments	\$ —	\$ —	\$ 625,000
Non-Cash Contributions of Stock Based Compensation from KKR Holdings L.P.	\$ 824,193	\$ 562,373	\$ —
Non-Cash Distributions to Noncontrolling Interests in Consolidated Entities	\$ —	\$ 35,413	\$ —
Non-Cash Contributions from KKR Private Equity Investors, L.P.	\$ —	\$ (19,412)	\$ —
Non-Cash Distributions to Controlling Equity Holders	\$ —	\$ 109,692	\$ 5,599
Non-Cash Distributions to KKR Holdings L.P.	\$ —	\$ 89,005	\$ —
Restricted Stock Grant from Affiliate	\$ —	\$ —	\$ 15,939
Proceeds Due from Unsettled Investment Sales	\$ (2,521)	\$ 7,733	\$ —
Unsettled Purchase of Investments	\$ 42,738	\$ (968)	\$ —
Change in Contingent Carried Interest Repayment Guarantee	\$ (21,138)	\$ (18,159)	\$ —
Realized Gains on Extinguishment of Debt	\$ —	\$ 19,761	\$ —
Realized Gains on Repayment of Debt	\$ 8,236	\$ —	\$ —
Unrealized Gains (Losses) on Foreign Exchange on Debt Obligations	\$ (5,525)	\$ (12,286)	\$ (35,624)
Conversion of Interest Payable into Debt Obligations	\$ 2,100	\$ 11,576	\$ —
Change in Foreign Exchange on Cash and Cash Equivalents Held at Consolidated Entities	\$ (2,443)	\$ 12,628	\$ (14,032)
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	\$ 69,999	\$ —	\$ —
Net Deferred Tax Effects Resulting from Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units including the effect of the tax receivable agreement	\$ 702	\$ —	\$ —
<b>Reorganization Adjustments</b>			
Due From Affiliates	\$ —	\$ 94,538	\$ —
Other Assets	\$ —	\$ 17,257	\$ —
Accounts Payable, Accrued Expenses and Other Liabilities	\$ —	\$ 53,040	\$ —
Noncontrolling Interests in Consolidated Entities	\$ —	\$ (2,564,845)	\$ —
<b>Deconsolidation of Consolidated Entities<sup>(1)</sup>:</b>			
Cash and Cash Equivalents Held at Consolidated Entities	\$ —	\$ 5,485	\$ —
Investments, at Fair Value	\$ —	\$ 911,603	\$ —
Due From Affiliates	\$ —	\$ 3,706	\$ —
Accounts Payable, Accrued Expenses and Other Liabilities	\$ —	\$ 33,351	\$ —
Noncontrolling Interests in Consolidated Entities	\$ —	\$ 761,236	\$ —

See notes to consolidated and combined financial statements.

# Notes to Consolidated and Combined Financial Statements

*(All Dollars are in Thousands, Except Unit, Per Unit Data, and Where Otherwise Noted)*

## 1. ORGANIZATION AND BASIS OF PRESENTATION

KKR & Co. L.P. (NYSE: KKR), together with its consolidated subsidiaries (“KKR”), is a leading global investment firm that is involved in providing a broad range of investment management services to investors and provides capital markets services for the firm, its portfolio companies and clients. Led by Henry Kravis and George Roberts, KKR conducts business through 14 offices around the world, which provides a global platform for sourcing transactions, raising capital and carrying out capital markets activities. KKR operates as a single professional services firm and carries out its investment activities under the KKR brand name.

KKR & Co. L.P. (the “Partnership”) was formed as a Delaware limited partnership on June 25, 2007 and its general partner is KKR Management LLC (the “Managing Partner”). The Partnership is the parent company of KKR Group Limited, which is the non-economic general partner of KKR Group Holdings L.P. (“Group Holdings”), and the Partnership is the sole limited partner of Group Holdings. Group Holdings holds a controlling economic interest in each of (i) KKR Management Holdings L.P. (“Management Holdings”) through KKR Management Holdings Corp., a Delaware corporation which is a domestic corporation for U.S. federal income tax purposes, and (ii) KKR Fund Holdings L.P. (“Fund Holdings”) and together with Management Holdings, the “KKR Group Partnerships”) directly and through KKR Fund Holdings GP Limited, a Cayman Island limited company which is a disregarded entity for U.S. federal income tax purposes. Group Holdings also owns certain economic interests in Management Holdings through a wholly-owned Delaware corporate subsidiary of KKR Management Holdings Corp. and certain economic interests in Fund Holdings through a Delaware partnership of which Group Holdings is the general partner with a 99% economic interest and KKR Management Holdings Corp. is a limited partner with a 1% economic interest. The Partnership, through its controlling equity interests in the KKR Group Partnerships, is the holding partnership for the KKR business.

### Reorganization and Combination Transactions

Prior to October 1, 2009, KKR’s business was conducted through multiple entities for which there was no single holding entity, but were under common control of senior KKR principals (“Senior Principals”), and in which Senior Principals and KKR’s other principals and individuals held ownership interests (collectively, the “Predecessor Owners”).

In addition, KKR sponsored the investment vehicle KKR Private Equity Investors, L.P. (“KPE”), which was a Guernsey limited partnership that traded publicly on Euronext Amsterdam under the symbol “KPE”. KPE was controlled by Senior Principals through their general partner interest. Substantially all of the economic interests in KPE were held by third party investors through their limited partner interests. From the date of its formation, all of KPE’s investments were made through another Guernsey limited partnership, KKR PEI Investments, L.P. (“KPE Investment Partnership”), of which KPE was the sole limited partner. The KPE Investment Partnership was controlled by Senior Principals through their general partner interest. Substantially all of the economic interests in the KPE Investment Partnership were held by KPE through its limited partner interest. KPE was established solely to hold limited partner interests in the KPE Investment Partnership and since its inception, KPE had no substantive operating activities other than the investing activities conducted through the KPE Investment Partnership.

In order to facilitate the Combination Transaction (defined below) KKR completed a series of transactions (the “Reorganization Transactions”), pursuant to which KKR’s business was reorganized under the KKR Group Partnerships. The reorganization involved a contribution of certain equity interests in KKR’s businesses that were held by KKR’s Predecessor Owners to the KKR Group Partnerships in exchange for 100% of the interests in the KKR Group Partnerships.

On October 1, 2009, the Partnership and KPE completed a transaction to combine the investment management business of KKR with the assets and liabilities of KPE (the “Combination Transaction” and together with the Reorganization Transactions, the “Transactions”). The Combination Transaction involved the contribution of all of KPE’s assets and liabilities to the KKR Group Partnerships in exchange for a 30% interest in the KKR Group Partnerships. The assets and liabilities contributed to the KKR Group Partnerships by KPE included \$3.0 billion of limited partner interests in the KPE Investment Partnership, \$470.3 million of cash and cash equivalents, and \$19.4 million of net other liabilities. The net asset value per unit of KPE on the date of the Transactions was greater than the publicly traded unit value of KPE on that same date. Due to a variety of reasons, including the fact that the holders of publicly traded units generally hold passive interests with little influence over the operations of a fund and its underlying investments and are not able to redeem their units at net asset value, net asset values of publicly traded closed-end funds are not necessarily correlated to the public market capitalization. The Combination Transaction was negotiated on an arms-length basis with the independent directors of KPE’s general partner and unanimously approved by the board of directors of KPE’s general partner, acting upon the unanimous recommendation of the independent directors of KPE’s general partner. In addition, the Combination Transaction was consented to by holders of a majority of KPE units, excluding any KPE units whose consent rights were controlled by KKR or its affiliates.

Common control transactions are accounted for under Accounting Standards Code (“ASC”) 805-50. Because KPE, the KPE Investment Partnership and the other entities included in the consolidated and combined financial statements were under the common control of the Senior Principals both prior to and following the completion of the Transactions, in accordance with ASC 805-50 the Transactions are accounted for as transfers of interests under common control. Accordingly, no new basis of accounting has been established upon completion of the Transactions and Group Holdings carried forward the carrying amounts of assets and liabilities that were contributed to the KKR Group Partnerships.

Similarly, because the Transactions did not result in a change of control, exchanges involving the various noncontrolling interests were accounted for as equity transactions in accordance with ASC 810-10-45-23. The carrying amount of noncontrolling interests associated with the KPE Investment Partnership was adjusted to zero to reflect the change in ownership interest from that of KPE to that of KKR & Co. L.P. Since KKR retained its controlling financial interest in the KKR business, no gain or loss was recognized in the accompanying consolidated and combined financial statements. This includes the exchange of the KPE Investment Partnership for a 30% economic interest in the KKR Group Partnerships in the Transactions, and the exchange by KKR’s other principals and individuals of their ownership interests in various entities included in the accompanying consolidated and combined financial statements before the Transactions for interests in KKR Holdings L.P. (“KKR Holdings”), a Cayman Islands exempted limited partnership. The exchange of the KPE Investment Partnership for a 30% interest in the KKR Group Partnerships in the Transactions is reflected in the consolidated and combined financial statements as a reallocation of equity interests from noncontrolling interests to KKR & Co. L.P. partners’ capital. The contribution of ownership interests held by KKR’s principals and other individuals is reflected in the consolidated and combined financial statements as a reallocation of equity interests from KKR & Co. L.P. partners’ capital to noncontrolling interests held by KKR Holdings.

Upon completion of the Combination Transaction, KPE changed its name to KKR & Co. (Guernsey) L.P. (“KKR Guernsey”) and was traded publicly on Euronext Amsterdam under the symbol “KKR” until it was delisted on July 15, 2010. Immediately following the Transactions, KKR Guernsey held a 30% economic interest in the KKR Group Partnerships through Group Holdings and our principals retained a 70% economic interest in the KKR Group Partnerships through KKR Holdings.

### U.S. Listing

On July 15, 2010, KKR & Co. L.P. became listed on the New York Stock Exchange (“NYSE”). In connection with the NYSE listing, KKR Guernsey contributed its 30% interest held through Group Holdings to KKR & Co. L.P. in exchange for NYSE-listed common units of KKR & Co. L.P. and distributed those common units to holders of KKR Guernsey units (referred to hereafter as the “In-Kind Distribution”). Because the assets of KKR Guernsey consisted solely of its interests in Group Holdings, the In-Kind Distribution resulted in the dissolution of KKR Guernsey and the delisting of its units from Euronext Amsterdam. As of July 15, 2010, KKR & Co. L.P. both indirectly controlled the KKR Group Partnerships and indirectly held KKR Group Partnership units representing at that time a 30% economic interest in KKR’s business. The remaining 70% of the KKR Group Partnership units were held by KKR’s principals through KKR Holdings. Subsequent to the NYSE listing, KKR Holdings and our principals exchanged a portion of their interests in the KKR Group Partnerships for common units, and as of December 31, 2010, KKR & Co. L.P. owned 31.15% of the KKR Group Partnership units and our principals owned 68.85% through KKR Holdings. From time to time, the percentage ownership in the KKR Group Partnerships may continue to change as KKR Holdings and/or KKR’s principals exchange units in the KKR Group Partnerships (the “KKR Group Partnership Units”) for KKR & Co. L.P. common units.

### Basis of Presentation

Prior to the Transactions, the accompanying consolidated and combined financial statements include the results of eight of KKR’s private equity funds and two of KKR’s fixed income funds and the general partners and management companies of those funds under the common control of its Senior Principals. One of the eight private equity funds included the KPE Investment Partnership.

Prior to the Transactions, the following entities and interests were included in the accompanying consolidated and combined financial statements but were not, however, contributed to the KKR Group Partnerships as part of the Transactions:

- (i) the general partners of the 1996 Fund and their respective consolidated funds;
- (ii) economic interests that allocate to a former principal and such person’s designees an aggregate of 1% of the carried interest received by the general partners of KKR’s private equity funds and 1% of KKR’s other profits (losses);
- (iii) economic interests that allocate to certain of KKR’s former principals and their designees a portion of the carried interest received by the general partners of KKR’s private equity funds that was allocated to them with respect to private equity investments made during such former principals’ previous tenure with KKR; and
- (iv) economic interests that allocate to certain of KKR’s current and former principals all of the capital invested by or on behalf of the general partners of KKR’s private equity funds before the completion of the Transactions and any returns thereon.

The interests described in (ii) through (iv) are referred to as the “Retained Interests.”

The general partners of the 1996 Fund and their respective consolidated funds were removed from the financial statements as they were not contributed to the KKR Group Partnerships as part of the Transactions.

The Retained Interests were not contributed to the KKR Group Partnerships but are reflected in the accompanying consolidated and combined financial statements as noncontrolling interests in consolidated entities due to the fact that the entities in which these noncontrolling interests are held continue to be consolidated subsequent to the Transactions.

Prior to the Transactions, certain KKR principals who received carried interest distributions with respect to KKR’s private equity funds had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of certain private equity funds to repay amounts to fund limited partners pursuant to the general partners’ clawback obligations. The terms of the Transactions require that KKR principals remain individually responsible for any clawback obligations relating to carry distributions received prior to the Transactions up to a maximum of \$223.6 million. See Note 2 “Summary of Significant Accounting Policies—Investment Income—Clawback Provision.”

To the extent a fund is in a clawback position, KKR will record a benefit to reflect the amounts due from the KKR principals related to the clawback. By recording this benefit, the clawback obligation has been reduced to an amount that represents the obligation of the KKR Group Partnerships. In connection with the Transactions, KKR recorded a receivable of \$95,280 on October 1, 2009 with a corresponding increase to equity.

In addition, historically, KKR consolidated the KPE Investment Partnership in its financial statements and substantially all of the ownership interests were reflected as noncontrolling interests. These noncontrolling interests were removed as these interests were contributed to the KKR Group Partnerships in the Transactions. Subsequent to the Transactions, the KKR Group Partnerships hold 100% of the controlling and economic interests in the KPE Investment Partnership. KKR therefore continues to consolidate the KPE Investment Partnership and its economic interests are no longer reflected as noncontrolling interests in consolidated entities as of October 1, 2009, the effective date of the Transactions.

Subsequent to the completion of the Transactions, KKR’s business is conducted through the KKR Group Partnerships, which own:

- all of the controlling and economic interests in KKR’s fee-generating management companies and approximately 98% of the economic interests in KKR’s capital markets companies;
- controlling and economic interests in the general partners of KKR’s private equity funds and other investment vehicles that are entitled to receive carry; and
- all of the controlling and economic interests in the KPE Investment Partnership.

With respect to KKR’s active and future funds and co-investment vehicles that provide for carried interest, KKR continues to allocate to its principals, other professionals and selected other individuals a portion of the carried interest earned. See Note 2, “Summary of Significant Accounting Policies—Profit Sharing Plans”. This allocation is made prior to the allocation of carried interest profits between KKR and KKR Holdings.

### Consolidation

The consolidated and combined financial statements (referred to hereafter as the “financial statements”) include the accounts of KKR’s management and capital markets companies, the general partners of certain unconsolidated co-investment vehicles and the general partners of its private equity, fixed income, and capital solution oriented funds and their respective consolidated funds (the “KKR Funds”).

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

KKR & Co. L.P. consolidates the financial results of the KKR Group Partnerships and their consolidated subsidiaries. KKR Holdings' ownership interest in the KKR Group Partnerships is reflected as noncontrolling interests held by KKR Holdings L.P. in the accompanying consolidated and combined financial statements.

References in the accompanying consolidated and combined financial statements to KKR's "principals" are to KKR's senior executives and operating consultants who hold interests in KKR's business through KKR Holdings, including Senior Principals.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

The accompanying consolidated and combined financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

### Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of fees, expenses and investment income during the reporting periods. Such estimates include but are not limited to the valuation of investments and financial instruments. Actual results could differ from those estimates and such differences could be material to the financial statements.

### Consolidation

#### General

KKR consolidates (i) those entities in which it holds a majority voting interest or has majority ownership and control over significant operating, financial and investing decisions of the entity, including those KKR Funds in which the general partner is presumed to have control, or (ii) entities determined to be variable interest entities ("VIEs") for which it is considered the primary beneficiary.

The majority of the entities consolidated by KKR are comprised of: (i) those entities in which KKR has majority ownership and has control over significant operating, financial and investing decisions; and (ii) the consolidated KKR Funds, which are those entities in which KKR holds substantive, controlling general partner or managing member interests. With respect to the consolidated KKR Funds, KKR generally has operational discretion and control, and limited partners have no substantive rights to impact ongoing governance and operating activities of the fund.

The KKR Funds are consolidated by KKR notwithstanding the fact that KKR has only a minority economic interest in those funds. KKR's financial statements reflect the assets, liabilities, fees, expenses, investment income and cash flows of the consolidated KKR Funds on a gross basis, and the majority of the economic interests in those funds, which are held by third party investors, are attributed to noncontrolling interests in consolidated entities in the accompanying financial statements. All of the management fees and certain other amounts earned by KKR from those funds are eliminated in consolidation. However, because the eliminated amounts are earned from, and funded by, noncontrolling interests, KKR's attributable share of the net income from those funds is increased by the amounts eliminated. Accordingly, the elimination in consolidation of such amounts has no effect on net income (loss) attributable to KKR or KKR partners' capital.

The KKR Funds are, for GAAP purposes, investment companies and therefore are not required to consolidate their majority owned and controlled investments in portfolio companies ("Portfolio Companies"). Rather, KKR reflects their investments in portfolio companies at fair value as described below.

All intercompany transactions and balances have been eliminated.

### Variable Interest Entities

KKR consolidates all VIEs in which it is considered the primary beneficiary. An enterprise 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 variable interest entity 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 variable interest entity. The consolidation rules which were revised effective January 1, 2010 require an analysis to (a) determine whether an entity in which KKR holds a variable interest is a variable interest entity and (b) whether KKR'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. Performance of that analysis requires the exercise of judgment. Where KKR has an interest in an entity that has qualified for the deferral of the consolidation rules as discussed in "Recently Issued Accounting Pronouncements", the analysis is based on consolidation rules prior to January 1, 2010. These rules require an analysis to (a) determine whether an entity in which KKR holds a variable interest is a variable interest entity and (b) whether KKR'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 be expected to absorb a majority of the variability of the entity. Under both guidelines, KKR determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion at each reporting date. In evaluating whether KKR is the primary beneficiary, KKR evaluates its economic interests in the entity held either directly by KKR or indirectly through related parties. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that KKR is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by KKR, affiliates of KKR or third parties) or amendments to the governing documents of the respective KKR Funds could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, KKR assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

As of December 31, 2010 and 2009, the maximum exposure to loss for those VIEs in which KKR is determined not to be the primary beneficiary but in which it has a variable interest is as follows:

<i>December 31,</i>	2010	2009
Investments, at Fair Value	\$ 35,867	\$ 13,753
Due from Affiliates	3,225	1,473
Maximum Exposure to Loss	\$ 39,092	\$ 15,226

For those unconsolidated VIEs in which KKR is the sponsor, KKR may have an obligation as general partner to provide commitments to such funds. For the years ended December 31, 2010 and 2009, KKR did not provide any support other than its obligated amount.

KKR's investment strategies differ by investment fund; however, the fundamental risks have similar characteristics, including loss of invested capital and loss of management and incentive fees. Accordingly, disaggregation of KKR's involvement with VIEs would not provide more useful information.

## Noncontrolling Interests

### Noncontrolling Interests in Consolidated Entities

Prior to the completion of the Transactions, noncontrolling interests in consolidated entities represented ownership interests in consolidated entities held by entities or persons other than our Predecessor Owners. The majority of these noncontrolling interests were held by third party investors in the KKR Funds and the limited partner interests in the KPE Investment Partnership.

Subsequent to the completion of the Transactions, noncontrolling interests in consolidated entities represent the ownership interests in KKR that are held by:

- (i) third party investors in the KKR Funds;
- (ii) a former principal and such person's designees representing an aggregate of 1% of the carried interest received by the general partners of KKR's funds and 1% of KKR's other profits (losses) until a future date;
- (iii) certain of KKR's former principals and their designees representing a portion of the carried interest received by the general partners of KKR's private equity funds that was allocated to them with respect to private equity investments made during such former principals' previous tenure with KKR;
- (iv) certain of KKR's current and former principals representing all of the capital invested by or on behalf of the general partners of KKR's private equity funds before the completion of the Transactions and any returns thereon; and
- (v) a third party in KKR's capital markets business (representing an aggregate of 2% of the capital markets business equity).

### Noncontrolling Interests held by KKR Holdings

Subsequent to the completion of the Transactions, noncontrolling interests attributable to KKR Holdings include KKR's Predecessor Owners' economic interests in the KKR Group Partnership Units. KKR's Predecessor Owners receive financial benefits from KKR's business in the form of distributions received from KKR Holdings and through their direct and indirect participation in the value of KKR Group Partnership Units held by KKR Holdings. As a result, certain profit based cash amounts that were previously paid by KKR no longer are paid by KKR and are borne by KKR Holdings.

Income of KKR after allocation to controlling interests in consolidated entities, with the exception of certain tax assets and liabilities that are directly allocable to KKR Management Holdings Corp., is attributed based on the percentage of the weighted average KKR Group Partnership Units held by KKR and KKR Holdings, who are the equity holders of the KKR Group Partnerships during the period. However, the contribution of certain expenses borne entirely by KKR Holdings as well as the periodic exchange of KKR Holdings units for KKR & Co. L.P. common units results in the equity allocations shown in the statements of changes in equity to differ from the pro rata split of net assets and liabilities.

## Fair Value Measurements

Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price). KKR measures and reports its investments and other financial instruments at fair value.

KKR has categorized and disclosed its assets and liabilities measured and reported at fair value based on the hierarchical levels as defined within GAAP. GAAP establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type and the characteristics specific to the asset or liability. Investments and other financial instruments for which fair value can be measured from quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments and other financial instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I—Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include publicly listed equities, publicly listed derivatives, equity securities sold, but not yet purchased and call options. KKR does not adjust the quoted price for these investments, even in situations where KKR holds a large position and a sale could reasonably affect the quoted price.

Level II—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is generally determined through the use of models or other valuation methodologies. Investments which are included in this category include corporate credit investments, convertible debt securities indexed to publicly listed securities and certain over-the-counter derivatives.

Level III—Pricing inputs are unobservable for the asset or liability and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include private Portfolio Companies held directly through the KKR Funds and private equity co-investment vehicles.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. KKR's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and it considers factors specific to the investment.

In cases where an investment measured and reported at fair value is transferred into or out of Level III of the fair value hierarchy, KKR accounts for the transfer at the end of the reporting period.

## Cash and Cash Equivalents

KKR considers all highly liquid short-term investments with original maturities of 90 days or less when purchased to be cash equivalents.

## Cash and Cash Equivalents Held at Consolidated Entities

Cash and cash equivalents held at consolidated entities represents cash that, although not legally restricted, is not available to fund general liquidity needs of KKR as the use of such funds is generally limited to the investment activities of the KKR Funds.

## Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represent amounts that are held by third parties under certain of KKR's financing and derivative transactions.

## Investments, at Fair Value

KKR's investments consist primarily of private equity and other investments. See Note 4, "Investments."

## Private Equity Investments

Private equity investments consist of investments in Portfolio Companies of consolidated KKR Funds that are, for GAAP purposes, investment companies. The KKR Funds reflect investments at their estimated fair values, with unrealized gains or losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Investment Activities in the statements of operations.

Private equity investments that have readily observable market prices (such as those traded on a securities exchange) are stated at the last quoted sales price as of the reporting date.

The determination of fair value may differ materially from the values that would have resulted if a ready market had existed. For these investments, KKR generally uses a market approach and an income (discounted cash flow) approach when determining fair value. Management considers various internal and external factors when applying these approaches, including the price at which the investment was acquired, the nature of the investment, current market conditions, recent public market and private transactions for comparable securities, and financing transactions subsequent to the acquisition of the investment. The fair value recorded for a particular investment will generally be within the range suggested by the two approaches.

Investments denominated in currencies other than the U.S. dollar are valued based on the spot rate of the respective currency at the end of the reporting period with changes related to exchange rate movements reflected as a component of Net Gains (Losses) from Investment Activities in the accompanying statements of operations.

#### Corporate Credit Investments

Corporate credit investments that are listed on a securities exchange are valued at their last quoted sales price as of the reporting date. Investments in corporate debt, including syndicated bank loans, high-yield securities and other fixed income securities, are valued at the mean of the "bid" and "asked" prices obtained from third party pricing services. In the event that third party pricing service quotations are unavailable, values are obtained from dealers or market makers, and where those values are not available, corporate credit investments are valued by KKR or KKR may engage a third party valuation firm to assist in such valuations.

#### Derivatives

Derivative contracts, including total rate of return swap contracts and credit default swap contracts, are recorded at estimated fair value with changes in fair value recorded as unrealized gains or losses in Net Gains (Losses) from Investment Activities in the accompanying statements of operations.

#### Investments in Publicly Traded Securities

KKR's investments in publicly traded securities represent equity securities, which are classified as trading securities and carried at fair market value. Changes in the fair market value of trading securities are reported within Net Gains (Losses) from Investment Activities in the accompanying statements of operations.

#### Securities Sold, Not Yet Purchased

Whether part of a hedging transaction or a transaction in its own right, securities sold, not yet purchased, or securities sold short, represent obligations of KKR to deliver the specified security at the contracted price, and thereby create a liability to repurchase the security in the market at the prevailing prices. The liability for such securities sold short is marked to market based on the current value of the underlying security at the reporting date with changes in fair value recorded as unrealized gains or losses in Net Gains (Losses) from Investment Activities in the accompanying statements of operations. These transactions may involve a market risk in excess of the amount currently reflected in KKR's statements of financial condition.

#### Due from and Due to Affiliates

For purposes of classifying amounts, KKR considers its principals and their related entities, unconsolidated funds and the Portfolio Companies of its funds to be affiliates. Receivables from and payables to affiliates are recorded at their current settlement amount.

#### Foreign Exchange Derivatives and Hedging Activities

KKR enters into derivative financial instruments primarily to manage foreign exchange risk and interest rate risk arising from certain assets and liabilities. All derivatives are recognized as either assets or liabilities in the statements of financial condition and measured at fair value with changes in fair value recorded in Net Gains (Losses) from

Investment Activities in the accompanying statements of operations. KKR's derivative financial instruments contain credit risk to the extent that its bank counterparties may be unable to meet the terms of the agreements. KKR attempts to minimize this risk by limiting its counterparties to major financial institutions with strong credit ratings.

#### Fixed Assets, Depreciation and Amortization

Fixed assets consist primarily of leasehold improvements, furniture, fixtures and equipment, and computer hardware and software. Such amounts are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the assets' estimated economic 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.

#### Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from contributions from and distributions to owners. In the accompanying financial statements, comprehensive income represents Net Income (Loss), as presented in the statements of operations and net foreign currency translation adjustments.

#### Fees

Fees consist primarily of (i) monitoring and transaction fees from providing advisory and other services, (ii) management and incentive fees from providing investment management services to unconsolidated funds, a specialty finance company, structured finance vehicles, and separately managed accounts, and (iii) fees from capital markets activities. These fees are based on the contractual terms of the governing agreements and are recognized in the period during which the related services are performed.

For the years ended December 31, 2010, 2009 and 2008, fees consisted of the following:

<i>For the Years Ended December 31,</i>	2010	2009	2008
Transaction Fees	\$ 212,527	\$ 91,828	\$ 41,307
Monitoring Fees	119,242	174,476	135,234
Management Fees	64,785	60,495	58,640
Incentive Fees	38,832	4,472	—
Total Fee Income	\$435,386	\$ 331,271	\$ 235,181

#### Transaction Fees

Transaction fees are earned by KKR primarily in connection with successful private equity and debt transactions and capital markets activities. Transaction fees are recognized upon closing of the transaction. Fees are typically paid on or around the closing.

In connection with pursuing successful Portfolio Company investments, KKR receives reimbursement for certain transaction-related expenses. Transaction-related expenses, which are reimbursed by third parties, are typically deferred until the transaction is consummated and are recorded in Other Assets on the date incurred. The costs of successfully completed transactions are borne by the KKR Funds and included as a component of the investment's cost basis. Subsequent to closing, investments are recorded at fair value each reporting period as described in the section above titled Investments, at Fair Value. Upon reimbursement from a third party, the cash receipt is recorded and the deferred amounts are relieved. No fees or expenses are recorded for these reimbursements.

#### Monitoring Fees

Monitoring fees are earned by KKR for services provided to Portfolio Companies and are recognized as services are rendered. These fees are paid based on a fixed periodic schedule by the Portfolio Companies either in advance or in arrears and are separately negotiated for each

Portfolio Company. Monitoring fees amounted to \$86,932, \$158,243 and \$112,258 for the years ended December 31, 2010, 2009 and 2008, respectively.

In connection with the monitoring of Portfolio Companies and certain unconsolidated funds, KKR receives reimbursement for certain expenses incurred on behalf of these entities. Costs incurred in monitoring these entities are classified as general, administrative and other expenses and reimbursements of such costs are classified as monitoring fees. These reimbursements amounted to \$32,310, \$16,233 and \$22,976 for the years ended December 31, 2010, 2009 and 2008, respectively.

#### Management and Incentive Fees

Management fees received from consolidated KKR Funds are eliminated in consolidation. However, because these amounts are funded by, and earned from, noncontrolling interests, KKR's allocated share of the net income from consolidated KKR Funds is increased by the amount of fees that are eliminated. Accordingly, the elimination of these fees does not have an effect on the net income attributable to KKR or KKR partners' capital.

#### Private Equity Funds

For KKR's private equity funds and certain unconsolidated KKR sponsored funds, gross management fees generally range from 1% to 2% of committed capital during the fund's investment period and is generally 0.75% of invested capital after the expiration of the fund's investment period with subsequent reductions over time. Typically, an investment period is defined as a period of up to six years. The actual length of the investment period may be shorter based on the timing and deployment of committed capital.

For periods prior to the Transactions, in advance of the management service period, KKR had elected to waive the right to earn certain management fees that it would have been entitled to from its private equity funds. The cash that would have been payable was contributed by the funds' investors and was initially included as a component of Cash and Cash Equivalents Held at Consolidated Entities. In lieu of making direct cash capital contributions, these investor contributions were used to satisfy a portion of the capital commitments to which KKR would otherwise have been subject as the general partner of the fund. As a result of the election to waive the fees, KKR was not entitled to any portion of these fees until the fund had achieved positive investment results. Because the ability to earn the waived fees was contingent upon the achievement of positive investment returns by the fund, the recognition of income only occurred when the contingency was satisfied. There were no waived fees for the year ended December 31, 2010 and waived fees of \$25.5 million and \$44.0 million for the years ended December 31, 2009 and 2008, respectively.

Certain of KKR's private equity funds require the management company to refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, a liability to the fund's limited partners is recorded and revenue is reduced for the amount of the carried interest recognized, not to exceed 20% of the management fees earned. As of December 31, 2010, the amount subject to refund for which no liability has been recorded approximates \$58.7 million as a result of certain funds not yet recognizing sufficient carried interests. The refunds to the limited partners are paid, and the liabilities relieved, at such time that the underlying investments are sold and the associated carried interests are realized. In the event that a fund's carried interest is not sufficient to cover all or a portion of the amount that represents 20% of the earned management fees, these fees would not be returned to the funds' limited partners, in accordance with the respective fund agreements.

For periods prior to the Transactions, KKR earned fees from the KPE Investment Partnership which were determined quarterly based on 25% of the sum of (i) equity up to and including \$3 billion multiplied by

1.25% plus (ii) equity in excess of \$3 billion multiplied by 1%. For purposes of calculating the management fee, equity was an amount defined in the management agreement. Subsequent to the Transactions, the KPE Investment Partnership continues to pay a fee. However, since the KKR Group Partnerships hold 100% of the controlling and economic interests of the KPE Investment Partnership, the fee is eliminated in consolidation.

#### KKR Financial Holdings LLC ("KFN")

KKR's management agreement with KFN provides, among other things, that KKR is entitled to certain fees, consisting of a base management fee and an incentive fee. KKR earns a base management fee, computed and payable monthly in arrears, based on an annual rate of 1.75% of adjusted equity, which is an amount defined in the management agreement.

KKR has also received restricted common shares and common share options from KFN as a component of compensation for management services provided to KFN. The restricted common shares and share options vest ratably over applicable vesting periods and are initially recorded as deferred revenue at their estimated fair values at the date of grant. Subsequently, KKR re-measures the restricted common shares and share options to the extent that they are unvested, with a corresponding adjustment to deferred revenue. Income from restricted common shares is recognized ratably over the vesting period as a component of Fees in the accompanying statement of operations. Vested common shares that are received as a component of compensation for management services are carried as trading securities, and are recorded at estimated fair value with changes in fair value recognized in Net Gains (Losses) from Investment Activities in the accompanying statements of operations.

KKR's management agreement with KFN also provides that KFN is responsible for paying KKR quarterly incentive compensation in an amount equal to the product of (i) 25% of the dollar amount by which: (a) KFN's net income, before incentive compensation, per weighted average share of KFN's common shares for such quarter, exceeds (b) an amount equal to (A) the weighted average of the price per share of the common stock of KFN in its August 2004 private placement and the prices per share of the common stock of KFN in its initial public offering and any subsequent offerings by KFN multiplied by (B) the greater of (1) 2.00% and (2) 0.50% plus one-fourth of the ten year treasury rate for such quarter, multiplied by (ii) the weighted average number of KFN's common shares outstanding in such quarter. Once earned, there are no clawbacks of incentive fees received from KFN. KKR's management agreement with KFN was renewed on January 1, 2011 and will automatically be renewed for successive one-year terms following December 31, 2011 unless the agreement is terminated in accordance with its terms. The management agreement provides that KFN may terminate the agreement only if:

- the termination is approved at least 180 days prior to the expiration date by at least two-thirds of KFN's independent directors or by the holders of a majority of KFN's outstanding common shares and the termination is based upon (i) a determination that KKR's performance has been unsatisfactory and materially detrimental to KFN or (ii) a determination that the management and incentive fees payable to KKR are not fair (subject to KKR's right to prevent a termination by reaching an agreement to reduce KKR's management and incentive fees), in which case a termination fee is payable to KKR; or
- KKR's subsidiary that manages KFN experiences a "change of control" or KKR materially breaches the provisions of the agreement, engages in certain acts of willful misconduct or gross negligence, becomes bankrupt or insolvent or is dissolved, in which case a termination fee is not payable to KKR.

None of the aforementioned events have occurred as of December 31, 2010.

## Investment Funds

### Structured Finance Vehicles

KKR's management agreements for its structured finance vehicles provide for senior collateral management fees and subordinate collateral management fees. Senior collateral management fees are determined based on an annual rate of 0.15% of collateral and subordinate collateral management fees are determined based on an annual rate of 0.35% of collateral. If amounts distributable on any payment date are insufficient to pay the collateral management fees according to the priority of payments, any shortfall is deferred and payable on subsequent payment dates. KKR has the right to waive all or any portion of any collateral management fee. As of December 31, 2010, KKR has permanently waived \$103.1 million of collateral management fees. KKR generally waives the collateral management fees for the majority of its structured finance vehicles; however, KKR may cease waiving collateral management fees at its discretion. For the purpose of calculating the collateral management fees, collateral, the payment dates, and the priority of payments are terms defined in the management agreements.

### Separately Managed Accounts

Certain fixed income and special situations accounts referred to as "Separately Managed Accounts" invest in liquid strategies, such as leveraged loans and high yield bonds, as well as less-liquid credit products such as mezzanine debt and special situations investments. These accounts provide for management fees determined quarterly based on an annual rate generally ranging from 0.5% to 1.5%. Such rate may be based on the accounts' average net asset value, capital commitments or invested capital. Such accounts may also provide for a carried interest on investment disposition proceeds in excess of the capital contributions made for such investment. The carried interest, if any, may be subject to a preferred return prior to any distributions of carried interest. Carried interest is generally recognized based on the contractual formula set forth in the applicable agreement governing the account. If an account provides for carried interest, the applicable agreements typically provide for clawback if it is determined that KKR received carried interest in excess of the amount it was entitled to receive for such account.

### Investment Income

Investment income consists primarily of the net impact of: (i) realized and unrealized gains and losses on investments, (ii) dividends, (iii) interest income, (iv) interest expense and (v) foreign exchange gains and losses relating to mark-to-market activity on foreign exchange forward contracts, foreign currency options and foreign denominated debt. Carried interests and similar distribution rights generally entitle KKR to a percentage of the profits generated by a fund as described below. Unrealized gains or losses result from changes in fair value of investments during the period, and are included in Net Gains (Losses) from Investment Activities. Upon disposition of an investment, previously recognized unrealized gains or losses are reversed and a realized gain or loss is recognized.

### Carried Interests

Carried interests entitle the general partner of a fund to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduce noncontrolling interests' attributable share of those earnings. Amounts earned pursuant to carried interests are included as investment income in Net Gains (Losses) from Investment Activities and are earned by the general partner of those funds to the extent that cumulative investment returns are positive. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reduced and reflected as investment losses. Carried interest is recognized based on the contractual formula set forth in the instruments governing the fund as if the fund was terminated at the reporting date with the then estimated fair values of the investments realized. Due to the extended durations of KKR's private equity funds, KKR believes

that this approach results in income recognition that best reflects the periodic performance of KKR in the management of those funds. Carried interest recognized (reversed) amounted to approximately \$1,207 million, \$832 million and (\$1,197) million for the years ended December 31, 2010, 2009 and 2008, respectively.

As described below, the instruments governing KKR's private equity funds generally include a "clawback" or, in certain instances, a "net loss sharing" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return or contribute amounts to the fund for distribution to investors at the end of the life of the fund. See Note 13 "Commitments and Contingencies".

### Dividend Income

Dividend income is recognized by KKR on the ex-dividend date, or in the absence of a formal declaration, on the date it is received. For the years ended December 31, 2010, 2009 and 2008, dividends earned by the consolidated KKR Funds amounted to \$1,247,254, \$181,373 and \$74,613, respectively.

### Interest Income

Interest income is recognized as earned. Interest income earned by the consolidated KKR Funds amounted to \$217,411, \$136,472 and \$119,562 for the years ended December 31, 2010, 2009 and 2008, respectively.

### Employee Compensation and Benefits

Employee compensation and benefits expense includes salaries, bonuses, equity based compensation and profit sharing plans as described below.

Historically, employee compensation and benefits expense has consisted of base salaries and bonuses paid to employees who were not Senior Principals. Payments made to our Senior Principals included partner distributions that were paid to our Senior Principals and accounted for as capital distributions as a result of operating as a partnership. Accordingly, KKR did not record any employee compensation and benefits charges for payments made to Senior Principals for periods prior to the completion of the Transactions.

Following the completion of the Transactions, all of the Senior Principals and other employees receive a base salary that is paid by KKR and accounted for as employee compensation and benefits expense. Employees are also eligible to receive discretionary cash bonuses based on performance, overall profitability and other matters. While cash bonuses paid to most employees are funded by KKR and result in customary employee compensation and benefits charges, cash bonuses that are paid to certain of our most senior employees are funded by KKR Holdings with distributions that it receives on its KKR Group Partnership Units. To the extent that distributions received by these individuals exceed the amounts that they are otherwise entitled to through their vested units in KKR Holdings, this excess will be funded by KKR Holdings and reflected in compensation expense in the statement of operations.

### Equity Based Payments

Compensation paid to KKR employees in the form of equity is recognized as employee compensation and benefits expense. GAAP generally requires that the cost of services received in exchange for an award of an equity instrument be measured based on the grant-date fair value of the award. Equity based awards that do not require the satisfaction of future service or performance criteria (i.e., vested awards) are expensed immediately. Equity based awards that require the satisfaction of future service or performance criteria are recognized over the relevant service period, adjusted for estimated forfeitures of awards not expected to vest.

Compensation paid to non-employee operating consultants to KKR's businesses in the form of equity is recognized as general, administrative and other expense. Unlike employee equity awards, the cost of services

received in exchange for an award of an equity instrument to service providers 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 do not require the satisfaction of future service or performance criteria (i.e., vested awards) are expensed immediately. Equity based awards that require the satisfaction of future service or performance 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.

### Profit Sharing Plans

KKR has implemented profit sharing arrangements for KKR employees, operating consultants and certain senior advisors working in its businesses that are designed to appropriately align performance and compensation.

Subsequent to the Transactions, with respect to KKR's active and future funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals, other professionals and operating consultants a portion of the carried interest earned in relation to these funds as part of its carry pool. KKR currently allocates approximately 40% of the carry it earns from these funds and vehicles to its carry pool. These amounts are accounted for as compensatory profit-sharing arrangements in conjunction with the related carried interest income and recorded as compensation expense for KKR employees and general and administrative expense for operating consultants. For the year ended December 31, 2010, \$455.9 million was charged to the statement of operations. For the year ended December 31, 2009, \$167.2 million was charged to the statement of operations of which \$130.2 million was a one-time charge recorded immediately subsequent to the Transactions.

To the extent previously recorded carried interest is adjusted to reflect decreases in the underlying funds' valuations at period end, related profit sharing amounts previously accrued are adjusted and reflected as a credit to current period compensation expense.

### Foreign Currency

Foreign currency denominated assets and liabilities are primarily held through the KKR Funds. Foreign currency denominated assets and liabilities are translated using the exchange rates prevailing at the end of each reporting period. Results of foreign operations are translated at the weighted average exchange rate for each reporting period. Translation adjustments are included as a component of accumulated other comprehensive income until realized. Foreign currency gains or losses resulting from transactions outside of the functional currency of a consolidated entity are recorded in income as incurred and were not material during the years ended December 31, 2010, 2009 and 2008.

### Income Taxes

Prior to the completion of the Transactions, KKR operated as a partnership or limited liability company for U.S. federal income tax purposes and mainly as a corporate entity in non-U.S. jurisdictions. As a result, income was not subject to U.S. federal and state income taxes. Generally, the tax liability related to income earned by these entities represented obligations of the KKR principals and have not been reflected in the historical financial statements. Income taxes shown on the statements of operations prior to the Transactions are attributable to the New York City unincorporated business tax and other income taxes on certain entities located in non-U.S. jurisdictions.

Following the Transactions, the KKR Group Partnerships and certain of their subsidiaries continue to operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases continue to be subject to New York City unincorporated business taxes, or non-U.S. income taxes. In addition, certain of the wholly owned

subsidiaries of KKR and the KKR Group Partnerships are subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to KKR's share of this income is reflected in the financial statements.

The Company provides for federal, state and foreign income taxes currently payable. In addition, 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 bases using currently enacted tax rates. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all the deferred tax assets will not be realized.

Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions including evaluating uncertainties. KKR reviews its tax positions quarterly and adjusts its tax balances as new information becomes available.

### Uncertain Tax Positions

For the purposes of calculating uncertain tax positions, KKR measures the tax benefit of such positions by determining the largest amount that is greater than 50% likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. These assessments can be complex and require significant judgment. To the extent that KKR's estimates change or the final tax outcome of these matters is different than the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made. If the initial assessment fails to result in the recognition of a tax benefit, KKR regularly monitors its position and subsequently recognizes the tax benefit if (i) there are changes in tax law or analogous case law that sufficiently raise the likelihood of prevailing on the technical merits of the position to more-likely-than-not, (ii) the statute of limitations expires, or (iii) there is a completion of an audit resulting in a settlement of that tax year with the appropriate agency. Interest and penalties, if any, are recorded within the provision for income taxes in KKR's statements of operations and are classified on the statements of financial condition with the related liability for unrecognized tax benefits.

### Tax Receivable Agreement

Certain exchanges of KKR Group Partnership Units from KKR Holdings or transferees of its KKR Group Partnership Units is expected to result in an increase in Management Holdings Corp.'s share of the tax basis of the tangible and intangible assets of KKR Management Holdings L.P., a portion is attributable to the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization for U.S. federal income tax purposes and therefore reduce the amount of income tax that our intermediate holding company would otherwise be required to pay in the future. In connection with the Transactions, KKR & Co. L.P. entered into a tax receivable agreement with KKR Holdings pursuant to which our intermediate holding company will be required to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income taxes that the intermediate holding company actually realizes as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding company actually realizes as a result of increases in tax basis that arise due to payments under the tax receivable agreement. Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, neither KKR Holdings nor its transferees will reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase, or the benefits of such increases, were successfully challenged. No payments have been made under the tax receivable agreement for the year-ended December 31, 2010.

KKR will record any such changes in basis as a deferred tax asset and the liability for any corresponding payments as amounts due to affiliates, with a corresponding net adjustment to equity at the time of exchange. KKR will record any benefit of the reduced income tax our intermediate holding company may recognize as such benefit is recognized.

#### **Earnings Per Common Unit**

Basic earnings per common unit is calculated by dividing Net Income (Loss) attributable to KKR & Co. L.P. by the weighted average number of common units outstanding during the period.

Diluted earnings per common unit exclude KKR Holdings units which are exchangeable on a one-for-one basis into common units of KKR & Co. L.P. The KKR Holdings units are excluded from the diluted calculation given that the exchange of these units would proportionally increase KKR & Co. L.P.'s interests in the KKR Group Partnerships and would have an anti-dilutive effect on earnings per common unit as a result of certain tax benefits KKR & Co. L.P. is assumed to receive upon the exchange.

Diluted earnings per common unit is calculated by dividing Net Income (Loss) attributable to KKR & Co. L.P. by the weighted average number of common units outstanding during the period increased to include the number of additional common units that would have been outstanding if the dilutive potential common units had been issued.

Diluted earnings per common unit include unvested equity awards that have been granted under the KKR & Co. L.P. 2010 Equity Incentive Plan since these equity awards dilute KKR and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR Group Partnerships.

#### **Recently Issued Accounting Pronouncements**

On January 1, 2010, KKR adopted guidance issued by the Financial Accounting Standards Board ("FASB") related to VIEs. The amendments significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity's involvement with such VIEs. The guidance provides a limited scope deferral for a reporting entity's interest in an entity that meets all of the following conditions: (a) the entity has all the attributes of an investment company as defined under the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, Investment Companies, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, Investment Companies, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

The reporting entity is required to perform a consolidation analysis for entities that qualify for the deferral in accordance with previously issued guidance on VIEs. Prior to the revision of the consolidation rules,

KKR consolidated a substantial majority of its investment vehicles except for KKR Strategic Capital Overseas Fund Ltd., KFN, KKR Index Fund Investments L.P., carry co-investment vehicles and 8 North America Investor L.P. With respect to the unconsolidated investment vehicles, these entities have qualified for the deferral of the revised consolidation rules and the consolidation analysis was based on the previous consolidation rules. In addition, in connection with the adoption of the new consolidation rules, KKR considered whether it was appropriate to consolidate five structured finance vehicle subsidiaries of KFN. With respect to these entities, the primary beneficiary was determined to be KFN, because KFN has the power to direct the activities that most significantly impact these entities' economic performance and KFN has both the obligation to absorb losses of these entities and the right to receive benefits from these entities that could potentially be significant to these entities. See Note 11, "Related Party Transactions" for financial information related to KFN. Accordingly, the revised consolidation rules have not resulted in the consolidation or deconsolidation of any entities. As a result, KKR consolidates the same entities both before and after adopting these new rules.

The revised guidance also enhances the disclosure requirements for a reporting entity's involvement with VIEs, including presentation on the consolidated statements of financial condition of assets and liabilities of consolidated VIEs which meet the separate presentation criteria and disclosure of assets and liabilities recognized in the consolidated statements of financial condition and the maximum exposure to loss for those VIEs in which a reporting entity is determined to not be the primary beneficiary but in which it has a variable interest. Disclosures relating to KKR's involvement with VIEs are disclosed within this Note.

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires additional disclosure on transfers in and out of Levels I and II fair value measurements in the fair value hierarchy and the reasons for such transfers. In addition, for fair value measurements using significant unobservable inputs (Level III), the reconciliation of beginning and ending balances shall be presented on a gross basis, with separate disclosure of gross purchases, sales, issuances and settlements and transfers in and transfers out of Level III. The new guidance also requires enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, an entity is required to provide further disclosures on valuation techniques and inputs used to measure fair value for fair value measurements that fall in either Level II or Level III. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level III fair value measurements, which are effective for fiscal years beginning after December 15, 2010. KKR adopted the guidance, including the reconciliation of Level III activity. KKR has included the required disclosures for the year ended December 31, 2010.

### 3. NET GAINS (LOSSES) FROM INVESTMENT ACTIVITIES

Net Gains (Losses) from Investment Activities in the statements of operations consist primarily of the realized and unrealized gains and losses on investments (including foreign exchange gains and losses attributable to foreign denominated investments and related activities) and other financial instruments. Unrealized gains or losses result from changes in the fair value of these investments and other financial instruments during a period. Upon disposition of an investment, previously recognized unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the current period. The following table summarizes KKR's total Net Gains (Losses) from Investment Activities:

	Year Ended December 31, 2010		Year Ended December 31, 2009		Year Ended December 31, 2008	
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)
Private Equity Investments <sup>(a)</sup>	\$ 2,351,708	\$ 5,159,632	\$ (173,548)	\$ 7,549,495	\$ 353,406	\$ (13,333,975)
Other Investments <sup>(a)</sup>	81,046	48,998	(167,718)	560,219	(157,306)	(376,661)
Foreign Exchange Contracts <sup>(b)</sup>	(9,865)	184,159	6,146	(242,621)	40,234	489,756
Foreign Exchange Options <sup>(b)</sup>	—	(20,489)	8,788	(29,766)	8,998	21,325
Futures Contract <sup>(b)</sup>	—	—	(3,856)	—	—	—
Call Options Written <sup>(b)</sup>	176	1	(12)	23	3,698	(2,025)
Securities Sold Short <sup>(b)</sup>	(16,654)	(2,752)	(7,958)	(6,994)	12,364	(133)
Other Derivative Liabilities <sup>(b)</sup>	(2,115)	2,115	(4,172)	15,034	(7,771)	(17,149)
Contingent Carried Interest Repayment Guarantee <sup>(c)</sup>	—	(21,138)	(4,466)	(13,693)	—	—
Debt Obligations <sup>(d)</sup>	8,236	(5,525)	19,761	(12,285)	13,819	20,732
Foreign Exchange Losses on Cash and Cash Equivalents held at Consolidated Entities <sup>(e)</sup>	(1,023)	(1,421)	12,628	—	(14,032)	—
<b>Total Net Gains (Losses) from Investment Activities</b>	<b>\$ 2,411,510</b>	<b>\$ 5,343,580</b>	<b>\$ (314,407)</b>	<b>\$ 7,819,412</b>	<b>\$ 253,410</b>	<b>\$ (13,198,130)</b>

(a) See Note 4 "Investments".

(b) See Note 7 "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities".

(c) See Note 13 "Commitments and Contingencies".

(d) See Note 8 "Debt Obligations".

(e) See Statement of Cash Flows Supplemental Disclosures.

### 4. INVESTMENTS

Investments, at Fair Value consist of the following:

December 31,	Fair Value	
	2010	2009
Private Equity Investments	\$34,642,166	\$27,950,840
Other Investments	1,807,604	1,022,103
	<b>\$36,449,770</b>	<b>\$28,972,943</b>

As of December 31, 2010 and 2009, Investments, at fair value totaling \$5,422,172 and \$5,632,235 respectively, were pledged as direct collateral against various financing arrangements. See Note 8 "Debt Obligations."

**Private Equity Investments**

The following table presents KKR's private equity investments at fair value. The classifications of the private equity investments are based on its primary business and the domiciled location of the business.

December 31,	Fair Value		Fair Value as a Percentage of Total	
	2010	2009	2010	2009
<b>Private Equity Investments, at Fair Value</b>				
<b>North America</b>				
Retail	\$ 5,419,908	\$ 4,567,691	15.6%	16.3%
Healthcare	4,163,435	3,609,996	12.0%	12.9%
Financial Services	2,625,310	2,579,309	7.6%	9.2%
Media	1,210,655	1,256,363	3.5%	4.5%
Technology	899,939	1,876,567	2.6%	6.7%
Energy	870,450	1,305,580	2.5%	4.7%
Consumer Products	779,921	720,915	2.3%	2.6%
Education	710,766	683,070	2.1%	2.4%
Chemicals	426,527	251,059	1.2%	0.9%
Hotels/Leisure	6,232	6,232	0.1%	0.0%
<b>North America Total (Cost: December 31, 2010, \$15,173,057; December 31, 2009, \$16,340,262)</b>	<b>17,113,143</b>	<b>16,856,782</b>	<b>49.5%</b>	<b>60.2%</b>
<b>Europe</b>				
Healthcare	2,761,078	1,953,069	8.0%	7.0%
Manufacturing	2,493,885	2,199,457	7.2%	7.9%
Technology	2,281,137	912,829	6.6%	3.3%
Retail	1,221,768	219,089	3.5%	0.8%
Telecom	863,195	1,031,706	2.5%	3.7%
Media	708,916	185,957	2.0%	0.7%
Services	266,063	—	0.8%	0.0%
Consumer Products	249,395	—	0.7%	0.0%
Recycling	218,277	224,822	0.6%	0.8%
<b>Europe Total (Cost: December 31, 2010, \$11,471,364; December 31, 2009, \$10,081,881)</b>	<b>11,063,714</b>	<b>6,726,929</b>	<b>31.9%</b>	<b>24.2%</b>
<b>Australia, Asia and Other Locations</b>				
Technology	2,852,393	2,431,647	8.2%	8.6%
Consumer Products	1,192,052	653,631	3.4%	2.3%
Financial Services	620,942	273,876	1.9%	1.0%
Media	619,772	423,742	1.8%	1.5%
Manufacturing	297,270	128,965	0.9%	0.5%
Services	286,523	—	0.8%	0.0%
Telecom	257,969	248,513	0.7%	0.9%
Recycling	165,399	48,100	0.5%	0.2%
Retail	82,336	—	0.2%	0.0%
Transportation	49,391	158,655	0.1%	0.6%
Energy	41,262	—	0.1%	0.0%
<b>Australia, Asia and Other Locations, Total (Cost: December 31, 2010, \$4,638,805; December 31, 2009, \$3,329,389)</b>	<b>6,465,309</b>	<b>4,367,129</b>	<b>18.6%</b>	<b>15.6%</b>
<b>Private Equity Investments, at Fair Value (Cost: December 31, 2010, \$31,283,226; December 31, 2009, \$29,751,532)</b>	<b>\$34,642,166</b>	<b>\$27,950,840</b>	<b>100.0%</b>	<b>100.0%</b>

As of December 31, 2010, private equity investments which represented greater than 5% of the net assets of consolidated private equity funds included: (i) Dollar General valued at \$3,377,971; (ii) Alliance Boots valued at \$2,468,283; and (iii) HCA Inc. valued at \$2,429,808.

As of December 31, 2009, private equity investments which represented greater than 5% of the net assets of consolidated private equity funds included: (i) Dollar General valued at \$3,048,526; (ii) HCA Inc. valued at \$2,128,535; (iii) Alliance Boots valued at \$1,953,069; (iv) First Data valued at \$1,476,459; and (v) Legrand S.A. valued at \$1,418,145.

The majority of the securities underlying KKR's private equity investments represent equity securities. As of December 31, 2010 and 2009, the aggregate amount of investments that were other than equity securities amounted to \$1,986,160 and \$2,814,030, respectively.

### Other Investments

The following table presents KKR's other investments at fair value:

December 31,	Fair Value	
	2010	2009
Corporate Credit Investments <sup>(a)</sup>	\$1,633,289	\$ 877,830
Equity Securities <sup>(b)</sup>	97,721	76,808
Other	76,594	67,465
Total Other Investments (Cost: December 31, 2010, \$1,661,377, December 31, 2009, \$931,955)	\$1,807,604	\$1,022,103

(a) Represents corporate high yield securities and loans classified as trading securities. Net unrealized trading gains (losses) relating to these investments amounted to \$146,507 and \$78,479 as of December 31, 2010 and 2009, respectively.

(b) Net unrealized trading gains (losses) relating to these investments amounted to \$1,794 and \$10,028 as of December 31, 2010 and 2009, respectively.

### 5. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of KKR's investments and other financial instruments measured and reported at fair value by the fair value hierarchy levels described in Note 2 "Summary of Significant Accounting Policies" as of December 31, 2010 and 2009.

Assets, at fair value:

December 31, 2010	Level I	Level II	Level III	Total
Private Equity Investments	\$9,386,259	\$ 2,083,110	\$ 23,172,797	\$34,642,166
Other Investments	75,596	1,020,806	711,202	1,807,604
Total Investments	9,461,855	3,103,916	23,883,999	36,449,770
Foreign Exchange				
Forward Contracts	—	58,986	—	58,986
Foreign Currency Options	—	1,530	—	1,530
Total Assets	\$ 9,461,855	\$ 3,164,432	\$ 23,883,999	\$36,510,286

December 31, 2009	Level I	Level II	Level III	Total
Private Equity Investments	\$ 6,476,849	\$ 2,149,030	\$ 19,324,961	\$27,950,840
Other Investments	75,216	854,812	92,075	1,022,103
Total Investments	6,552,065	3,003,842	19,417,036	28,972,943
Foreign Currency Options	—	13,055	—	13,055
Total Assets	\$6,552,065	\$ 3,016,897	\$ 19,417,036	\$ 28,985,998

Liabilities, at fair value:

December 31, 2010	Level I	Level II	Level III	Total
Securities Sold, Not Yet Purchased	\$ 89,820	\$ 2,006	\$ —	\$ 91,826
Call Options	566	—	—	566
Total Liabilities	\$ 90,386	\$ 2,006	\$ —	\$ 92,392

December 31, 2009	Level I	Level II	Level III	Total
Securities Sold, Not Yet Purchased	\$ 82,888	\$ 865	\$ —	\$ 83,753
Foreign Exchange				
Contracts	—	125,173	—	125,173
Interest Rate Swap	—	2,115	—	2,115
Call Options	80	—	—	80
Total Liabilities	\$ 82,968	\$ 128,153	\$ —	\$ 211,121

**NOTES TO CONSOLIDATED AND COMBINED  
FINANCIAL STATEMENTS**

The following table summarizes KKR's Level III investments and other financial instruments by valuation methodology as of December 31, 2010:

<i>December 31, 2010</i>	Private Equity Investments	Other Investments	Total Level III Holdings
Third-Party Fund Managers	0.0%	0.4%	0.4%
Public/Private Company			
Comparables and Discounted			
Cash Flows	97.0%	2.6%	99.6%
<b>Total</b>	<b>97.0%</b>	<b>3.0%</b>	<b>100.0%</b>

The changes in private equity investments and other investments measured and reported at fair value for which KKR has used Level III inputs to determine fair value for the years ended December 31, 2010 and 2009 are as follows:

<i>For the Year Ended December 31, 2010</i>	Private Equity Investments	Other Investments
Balance, Beginning of Period	\$ 19,324,961	\$ 92,075
Transfers In	—	183,526
Transfers Out	(1,900,884)	(45,148)
Purchases	3,378,731	484,597
Sales	(2,207,186)	(48,494)
Net Realized Gains (Losses)	1,014,899	5,714
Net Unrealized Gains (Losses)	3,562,276	38,932
Balance, End of Period	\$ 23,172,797	\$ 711,202
Changes in Net Unrealized Gains (Losses)		
Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to foreign- denominated investments) related to Investments still held at Reporting Date	\$ 3,092,754	\$ 40,455

The Transfers Out noted in the table above for private equity investments are attributable to certain Portfolio Companies that completed an initial public offering during the period.

The Transfers In noted in the table above for other investments are principally attributable to certain corporate credit investments that experienced an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

**6. EARNINGS PER COMMON UNIT**

Basic earnings per common unit is calculated by dividing Net Income (Loss) Attributable to KKR & Co. L.P. by the total weighted average number of common units outstanding during the period.

Diluted earnings per common unit is calculated by dividing Net Income (Loss) attributable to KKR & Co. L.P. by the weighted average number of common units outstanding during the period increased to include the number of additional common units that would have been outstanding if the dilutive potential common units had been issued.

For the year ended December 31, 2010 and period from October 1, 2009 through December 31, 2009, basic and diluted earnings per common unit were calculated as follows:

	For the Year Ended December 31, 2010		October 1, 2009 through December 31, 2009	
	Basic	Diluted	Basic	Diluted
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ 333,178	\$ 333,178	\$ (78,221)	\$ (78,221)
Net Income Attributable to KKR & Co. L.P. Per Common Unit	\$ 1.62	\$ 1.62	\$ (0.38)	\$ (0.38)
Total Weighted-Average Common Units Outstanding	206,031,682	206,039,244	204,902,226	204,902,226

The Transfers Out noted in the table above for other investments are principally attributable to certain corporate credit investments that experienced a significant level of market activity during the period and thus were valued using observable inputs.

<i>For the Year Ended December 31, 2009</i>	Private Equity	Other
Balance, Beginning of Period	\$ 16,156,627	\$ 162,857
Transfers In	500,500	—
Transfers Out	(4,227,723)	(185,589)
Purchases	1,531,808	22,772
Sales	(484,791)	(39,312)
Net Realized Gains (Losses)	(298,361)	(24,621)
Net Unrealized Gains (Losses)	6,146,901	155,968
Balance, End of Period	\$ 19,324,961	\$ 92,075

Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to foreign- denominated investments) related to Investments still held at Reporting Date		
	\$ 3,389,620	\$ 56,078

The Transfers Out noted in the table above are principally attributable to the Reorganization Transactions and private equity investments in certain Portfolio Companies that had an initial public offerings during the period.

Total realized and unrealized gains and losses recorded for Level III investments are reported in Net Gains (Losses) from Investment Activities in the accompanying statements of operations. There were no significant transfers between Level I and Level II during the years ended December 31, 2010 or 2009.

The carrying amounts of cash and cash equivalents, restricted cash and cash equivalents, due from / (to) affiliates, accounts payable, accrued expenses and other liabilities approximate fair value due to their short-term maturities. KKR's debt obligations except for KKR's Senior Notes (See Note 8) bear interest at floating rates and therefore fair value approximates carrying value.

For the year ended December 31, 2010, KKR Holdings units have been excluded from the calculation of diluted earnings per common unit given that the exchange of these units would proportionally increase KKR & Co. L.P.'s interests in the KKR Group Partnerships and would have an anti-dilutive effect on earnings per common unit as a result of certain tax benefits KKR & Co. L.P. is assumed to receive upon the exchange.

For the year ended December 31, 2010, a total of 30,000 unvested equity awards that have been granted under the KKR & Co. L.P. 2010 Equity Incentive Plan are dilutive and as such have been included in the calculation of diluted earnings per unit.

Prior to the Transactions, KKR's business was conducted through a large number of entities as to which there was no single holding entity but which were separately owned by its Predecessor Owners. There was no single capital structure upon which to calculate historical earnings per common unit information. Accordingly, earnings per common unit information have not been presented for the periods ended September 30, 2009 and December 31, 2008.

## 7. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Other assets consist of the following:

December 31,	2010	2009
Interest Receivable	\$ 84,018	\$ 54,974
Unrealized Gains on Foreign Exchange		
Forward Contracts (a)	58,986	—
Fixed Assets, net (b)	49,260	50,971
Intangible Asset, net (c)	28,099	31,888
Receivables	17,787	8,864
Unsettled Investment Trades (d)	10,254	7,733
Prepaid Expenses	8,473	5,573
Deferred Financing Costs	8,272	10,954
Deferred Tax Assets	6,831	24,616
Foreign Currency Options (e)	1,530	13,055
Other	36,244	14,424
	<b>\$309,754</b>	<b>\$223,052</b>

(a) Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign denominated private equity investments. Such instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying statements of operations. The fair value of these instruments as of December 31, 2009 was an unrealized loss of \$125,173 and was reported in Accounts Payable, Accrued Expenses and Other Liabilities. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments.

(b) Net of accumulated depreciation and amortization of \$72,389 and \$60,170 as of December 31, 2010 and 2009, respectively. Depreciation and amortization expense totaled \$11,664, \$9,799 and \$17,352 for the years ended December 31, 2010, 2009 and 2008, respectively.

(c) Net of accumulated amortization of \$9,787 and \$5,999 as of December 31, 2010 and 2009, respectively. Amortization expense totaled \$3,788, \$3,788 and \$2,211 for the years ended December 31, 2010, 2009 and 2008, respectively.

(d) Represents amounts due from third parties for investments sold for which cash has not been received.

(e) Represents hedging instruments used to manage foreign exchange risk. The instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying statements of operations. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments. The cost basis for these instruments at December 31, 2010 and 2009 was \$19,705 and \$10,741, respectively.

Accounts Payable, Accrued Expenses and Other Liabilities consist of the following:

December 31,	2010	2009
Amounts Payable to Carry Pool (a)	\$520,213	\$200,918
Interest Payable	93,422	114,807
Securities Sold, Not Yet Purchased (b)	91,826	83,753
Unsettled Investment Trades (c)	56,887	14,149
Accounts Payable and Accrued Expenses	51,668	69,964
Deferred Tax Liabilities	31,610	67,243
Accrued Compensation and Benefits	17,480	8,094
Taxes Payable	1,787	17,059
Deferred Revenue	3,322	3,535
Unrealized Losses on Foreign Exchange		
Forward Contracts (d)	—	125,173
Derivative Liabilities (e)	—	2,115
Other	17,893	4,894
	<b>\$886,108</b>	<b>\$711,704</b>

(a) Represents the amount of carried interest payable to KKR's principals, other professionals and selected other individuals with respect to KKR's active funds and co-investment vehicles that provide for carried interest. See Note 2 "Summary of Significant Accounting Policies—Profit Sharing Plans".

(b) Represents securities sold short, which are obligations of KKR to deliver a specified security at a contracted price at a future point in time. Such securities are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying statements of operations. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments. The cost basis for these instruments at December 31, 2010 and 2009 was \$81,949 and \$76,628, respectively.

(c) Represents amounts owed to third parties for investment purchases for which cash settlement has not occurred.

(d) Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign denominated private equity investments. Such instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying statements of operations. The fair value of these instruments as of December 31, 2010 was an unrealized gain of \$58,986 and was reported in Other Assets. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments.

(e) Represents derivative financial instruments used to manage interest rate risk arising from certain assets and liabilities. Such instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying statements of operations. As of December 31, 2010, there were no such derivative financial instruments outstanding. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments.

## 8. DEBT OBLIGATIONS

Debt obligations consist of the following:

December 31,	2010	2009
Investment Financing Arrangements	\$ 988,988	\$1,326,488
Senior Notes	497,972	—
Revolving Credit Agreements	—	733,697
	<b>\$1,486,960</b>	<b>\$2,060,185</b>

### Investment Financing Agreements

Certain of KKR's private equity fund investment vehicles have entered into financing arrangements with major financial institutions in connection with specific private equity investments with the objective of enhancing returns. These financing arrangements are not direct obligations of the general partners of KKR's private equity funds or its management companies. As of December 31, 2010, KKR had made \$1,906.2 million in these specific private equity investments of which \$989.0 million was funded using these financing arrangements. Total availability under these financing arrangements amounted to \$992.9 million as of December 31, 2010. The \$989.0 million of financing was structured through various instruments as discussed below.

Of the \$989.0 million of financing, approximately \$796.4 million was structured through the use of total return swaps which effectively convert third party capital contributions into borrowings of KKR.

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

\$171.4 million of the total return swaps mature in May 2011 with the remainder maturing in February 2015. Upon the occurrence of certain events, including an event based on the value of the collateral and events of default, KKR may be required to provide additional collateral plus accrued interest, under the terms of these financing arrangements. The per annum rates of interest payable for the financings range from three-month LIBOR plus 1.35% to three-month LIBOR plus 1.75% (rates ranging from 1.7% to 2.1% as of December 31, 2010).

Approximately \$182.2 million of financing was structured through the use of a syndicated term and a revolving credit facility (the "Term Facility") that matures in August 2014. The per annum rate of interest for each borrowing under the Term Facility was equal to the Bloomberg United States Dollar Interest Rate Swap Ask Rate plus 1.75% at the time of each borrowing under the Term Facility through March 11, 2010. On March 11, 2010, the Term Facility was amended and the per annum rate of interest is the greater of the 5-Year interest rate swap rate plus 1.75% or 4.65% for periods from March 12, 2010 to June 7, 2012. For the period June 8, 2012 through maturity the interest rate is equal to one year LIBOR plus 1.75%. The interest rate at December 31, 2010 on the borrowings outstanding was 4.65%.

In November 2010, a KKR investment vehicle entered into a five-year revolving credit agreement with a syndicate of lenders (the "Investment Credit Agreement"). The Investment Credit Agreement provides for up to \$28.1 million of senior secured credit subject to availability under a borrowing base determined by the value of certain specific assets pledged as collateral security for obligations under the agreement and a \$5.6 million sub-limit for letters of credit. Based on the level of certain assets in the investment vehicle, as of December 31, 2010, KKR had availability under the facility of \$13.5 million of which \$10.4 million of borrowings were outstanding. In addition, there is a letter of credit of \$0.6 million outstanding. As of December 31, 2010, the interest rates on borrowings outstanding under the Investment Credit Agreement ranged from 2.76% to 2.79%. This financing arrangement is non-recourse to the Partnership beyond the specific assets pledged as collateral.

### Senior Notes

On September 29, 2010, KKR Group Finance Co. LLC (the "Issuer"), a subsidiary of KKR Management Holdings Corp. and indirect subsidiary of the Partnership, issued \$500 million aggregate principal amount of 6.375% Senior Notes (the "Senior Notes"), which were issued at a price of 99.584%. The Senior Notes are unsecured and unsubordinated obligations of the Issuer and will mature on September 29, 2020, unless earlier redeemed or repurchased. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors.

The Senior Notes bear interest at a rate of 6.375% per annum, accruing from September 29, 2010. Interest is payable semiannually in arrears on March 29 and September 29 of each year, commencing on March 29, 2011. Interest expense on the Senior Notes was \$8.1 million for the year ended December 31, 2010. Transaction costs related to the issuance of the Senior Notes have been capitalized and are being amortized over the life of the Senior Notes. As of December 31, 2010, the fair value of the Senior Notes was \$495.5 million.

The indenture, as supplemented by a first supplemental indenture, relating to the Senior Notes includes covenants, including limitations on the Issuer's and the guarantors' ability to, subject to exceptions, 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 indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Senior Notes may declare the Senior Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any

applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the Senior Notes and any accrued and unpaid interest on the Senior Notes automatically becomes due and payable. All or a portion of the Senior Notes may be redeemed at the Issuer's 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 Senior Notes. If a change of control repurchase event occurs, the Senior Notes are subject to repurchase by the Issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the Senior Notes repurchased plus any accrued and unpaid interest on the Senior Notes repurchased to, but not including, the date of repurchase.

### KKR Revolving Credit Agreements

#### Corporate Credit Agreement

On February 26, 2008, KKR entered into a credit agreement with a major financial institution (the "Corporate Credit Agreement"). The Corporate Credit Agreement provided for revolving borrowings of up to \$1.0 billion, with a \$50.0 million sublimit for swing-line notes and a \$25.0 million sublimit for letters of credit. The facility had a term of five years that expired on February 26, 2013. As of December 31, 2010, no borrowings were outstanding on the Corporate Credit Agreement. See Note 16 "Subsequent Events."

#### KCM Credit Agreement

On February 27, 2008, KKR Capital Markets entered into a revolving credit agreement with a major financial institution (the "KCM Credit Agreement"). The KCM Credit Agreement, as amended, provides for revolving borrowings of up to \$500 million with a \$500 million sublimit for letters of credit. The KCM Credit Agreement has a maturity date of February 27, 2013. In March 2009, the KCM Credit Agreement was amended to reduce the amounts available on revolving borrowings from \$700 million to \$500 million. As a result of this amendment, the counterparty returned approximately \$1.6 million in financing costs. As of December 31, 2010, no borrowings were outstanding under the KCM Credit Agreement.

#### Principal Credit Agreement

In June 2007, the KPE Investment Partnership entered into a five-year revolving credit agreement with a syndicate of lenders (the "Principal Credit Agreement"). The Principal Credit Agreement provides for up to \$925.0 million of senior secured credit subject to availability under a borrowing base determined by the value of certain investments pledged as collateral security for obligations under the agreement. The borrowing base is subject to certain investment concentration limitations and the value of the investments constituting the borrowing base is subject to certain advance rates based on type of investment. In September 2009, a wholly-owned subsidiary of KKR assumed \$65.0 million of commitments on the Principal Credit Agreement from one of the counterparties to the agreement, which has effectively reduced KKR's availability under the Principal Credit Agreement on a consolidated basis to \$860.0 million.

As of December 31, 2010, no borrowings were outstanding under the Principal Credit Agreement. Foreign currency adjustments related to these borrowings during the period are recorded in Net Gains (Losses) from Investment Activities in the accompanying statements of operations. See Note 3 "Net Gains (Losses) from Investment Activities" for foreign currency adjustments related to these borrowings.

Scheduled principal payments for long-term borrowings at December 31, 2010 are as follows:

2011	\$ 171.4
2012	—
2013	—
2014	182.2
2015	635.4
Thereafter	500.0
	<u>\$1,489.0</u>

## 9. INCOME TAXES

Prior to the Transactions, KKR provided for New York City unincorporated business tax for certain entities based on a statutory rate of 4%. Following the Transactions, the KKR Group Partnerships and certain of their subsidiaries will continue to be treated as partnerships for U.S. federal income tax purposes and as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases continue to be subject to the New York City unincorporated business tax or non-U.S. income taxes. In addition, certain of the wholly-owned subsidiaries of KKR & Co. L.P. will be subject to federal, state and local corporate income taxes.

The provision (benefit) for income taxes consists of the following:

Year Ended December 31,	2010	2009	2008
<b>Current</b>			
Federal Income Tax	\$ 51,164	\$ 7,595	\$ —
State and Local Income Tax	11,695	14,081	(612)
Foreign Income Tax	12,837	6,469	6,366
Subtotal	<u>75,696</u>	28,145	5,754
<b>Deferred</b>			
Federal Income Tax	1,795	11,781	—
State and Local Income Tax	(1,655)	1,708	1,483
Foreign Income Tax	(476)	(4,636)	(451)
Subtotal	<u>(336)</u>	8,853	1,032
Total Income Taxes	<u>\$75,360</u>	<u>\$36,998</u>	<u>\$6,786</u>

The components of the deferred tax asset or liability consist of the following:

As of December 31,	2010	2009
<b>Deferred Tax Assets</b>		
Fund Management Fees	\$23,003	\$ 10,162
Net Operating Loss Carryforwards	258	3,477
Employee Compensation	8,506	7,263
Depreciation and Amortization	3,524	2,586
KKR Holdings Unit Exchange	19,041	—
Other	1,075	1,128
<b>Total Deferred Tax Assets</b>	<u>\$ 55,407</u>	<u>\$ 24,616</u>
<b>Deferred Tax Liabilities</b>		
Investment Basis Differences	\$ 78,076	\$66,203
Other	2,110	1,040
<b>Total Deferred Tax Liabilities</b>	<u>\$ 80,186</u>	<u>\$ 67,243</u>

For a particular tax-paying component of an entity and within a particular tax jurisdiction, deferred tax assets and liabilities are offset and presented as a single amount within Other Assets or Accounts Payable, Accrued and Other Liabilities, as applicable, in the accompanying Statements of Financial Position.

In connection with exchanges of KKR Holdings units into common units of KKR, KKR recorded an adjustment to equity to establish net deferred tax liabilities associated with future taxable income of KKR Management Holdings Corp. totaling \$2,154. Additionally, as a result of certain of these exchanges, KKR recorded a deferred tax asset associated with an increase in Management Holdings Corp.'s share of the tax basis of the tangible and intangible assets of Management Holdings, totaling \$19,041. This amount was offset by an adjustment totaling \$16,185 to record amounts Due to KKR Holdings under the tax receivable agreement. The net of these adjustments was recorded as an adjustment to equity at the time of the exchanges.

The following table reconciles the Provision (Benefit) for Taxes to the U.S. federal statutory tax rate:

Year Ended December 31,	2010	2009	2008
Income Before Taxes at Statutory Rate	\$ 2,748,141	\$ 2,411,279	\$(521,938)
Pass Through Income	(2,817,081)	(2,463,097)	521,938
Foreign Income Taxes	12,361	1,833	5,915
State and Local Income Taxes	7,065	8,819	871
Compensation Charges borne by KKR Holdings	134,188	81,124	—
Other	(9,314)	(2,960)	—
Effective Tax Expense	<u>\$ 75,360</u>	<u>\$ 36,998</u>	<u>\$ 6,786</u>

Income (loss) derived from foreign jurisdictions is immaterial. In addition, there were no significant undistributed earnings at December 31, 2010.

KKR has gross operating loss carryforwards of \$6,460 and \$121,555 in certain local jurisdictions for the years ended December 31, 2010 and 2009, respectively. Such loss carryforwards expire between 2029 and 2030.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits:

Year Ended December 31,	2010	2009
Unrecognized Tax Benefits, January 1	\$ 4,640	\$ —
Gross increases in tax positions from prior periods	—	—
Gross decreases in tax positions from prior periods	(1,722)	—
Gross increases in tax positions in current period	1,227	4,640
Settlement of tax positions	—	—
Lapse of statute of limitations	(172)	—
Unrecognized Tax Benefits, December 31	<u>\$ 3,973</u>	<u>\$ 4,640</u>

Included in the balance of unrecognized tax benefits at December 31, 2010 are \$4.0 million of tax benefits that, if recognized, would affect the effective tax rate. KKR believes that there will not be a significant increase or decrease to the tax positions within 12 months of the reporting date.

For the years ended December 31, 2010 and 2009, KKR's tax provision included \$(0.1) million and \$0.5 million, respectively, related to interest and \$0.5 million and \$0.0 million, respectively, related to penalties. No such charges were recorded for the year ended December 31, 2008 as no uncertain tax positions had been identified. KKR believes that there will not be a significant increase or decrease to the tax positions within 12 months of the reporting date.

KKR files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, KKR is subject to examination by federal and certain state, local and foreign tax regulators. As of December 31, 2010, KKR's and the predecessor entities' state and local tax returns for the years 2007 through 2009 are open under normal statute of limitations and therefore subject to examination.

## 10. EQUITY BASED COMPENSATION

Upon completion of the Transactions, KKR principals and certain operating consultants received grants of KKR Holdings units which are exchangeable for KKR Group Partnership Units. These grants were issued as part of the Reorganization Transactions as well as to promote broad ownership of our firm among our personnel and further align their interests with those of investors. We believe that grants to our principals and certain operating consultants provide an additional means for allowing us to incentivize, motivate and retain qualified professionals that will help us continue to grow our business over the long term. These units are subject to minimum retained ownership requirements and in certain cases, transfer restrictions, and allow for the ability to exchange into common units of KKR & Co. L.P. on a one-for-one basis. As of December 31, 2010, KKR Holdings owns approximately 69%, or 470,237,329, of the outstanding KKR Group Partnership Units.

Except for any units that vested on the date of grant, units are subject to service based vesting over a five-year period. The transfer restriction period will last for a minimum of (i) one year with respect to one-half of the interests vesting on any vesting date and (ii) two years with respect to the other one-half of the interests vesting on such vesting date. While providing services to KKR, these individuals will also be subject to minimum retained ownership rules requiring them to continuously hold at least 25% of their vested interests. Upon separation from KKR, certain individuals will be subject to the terms of a non-compete agreement that may require the forfeiture of certain vested and unvested units should the terms of the non-compete agreement be violated. Holders of KKR Group Partnership Units held through KKR Holdings are not entitled to participate in distributions made on KKR Group Partnership Units until such units are vested.

All of the 470,237,329 KKR Holdings units have been legally allocated, but the allocation of 35,940,030 of these units has not been communicated to each respective principal. The units whose allocation has not been communicated are subject to performance based vesting conditions, which include profitability and other similar criteria. These criteria are not sufficiently specific to constitute performance conditions for accounting purposes, and the achievement, or lack thereof, will be determined based upon the exercise of judgment by the managing members. Each principal will ultimately receive between zero and 100% of the units initially allocated. The allocation of these units has not yet been communicated to the award recipients as this was management's decision on how to best incentivize its employees. It is anticipated that additional service-based vesting conditions will be imposed at the time the allocation is initially communicated to the respective employees. KKR applied the guidance of ASC 718 and concluded that these KKR Holdings units do not yet meet the criteria for recognition of compensation cost because neither the grant date nor the service inception date has occurred. In reaching a conclusion that the service inception date has not occurred, KKR considered (a) the fact that the vesting conditions are not sufficiently specific to constitute performance conditions for accounting purposes, (b) the significant judgment that can be exercised by the managing members in determining whether the vesting conditions are ultimately achieved, and (c) the absence of communication to the principals of any information related to the number of units they were initially allocated.

The fair value of KKR Holdings units granted is based on the closing price of KKR & Co. L.P.'s common units on date of grant for principal awards and on the reporting date for operating consultant awards. KKR determined this to be the best evidence of fair value as a KKR unit is traded in an active market and has an observable market price. Additionally, a KKR Holdings unit is an instrument with terms and conditions similar to those of a KKR & Co. L.P. common unit. Specifically, units in both KKR Holdings and KKR & Co. L.P. represent ownership interests in KKR Group Partnership Units and, subject to vesting,

minimum retained ownership requirements and transfer restrictions referenced above, each KKR Holdings unit is exchangeable into a KKR Group Partnership Unit on a one-for-one basis.

In conjunction with the Transactions, certain principals and operating consultants contributed ownership interests in our historical businesses in exchange for units in KKR Holdings. On the date of grant, the fair value of the total ownership interests contributed by the principals and operating consultants as a whole amounted to approximately \$4.34 billion. The value of the contributed interests was estimated using an income approach based upon the present value of forecasts of ongoing cash flows for the business. Management deemed an income approach to be the most appropriate methodology due to the differences in the underlying business fundamentals among KKR's various business lines, especially as it relates to carried interest, and to a lesser extent the lack of public data for companies comparable to KKR as a whole. Assumptions utilized in the valuation analysis reflect management's forecast for the business, historical experience, current economic conditions and long-term normalized expectations that take into consideration estimated investment returns, investment holding periods, management fees, taxes and discount rates management deemed appropriate for the business.

The calculation of compensation expense, if any, was performed on a person by person basis. Individual grants at October 1, 2009, were based on past performance and anticipated future performance. These grants may have differed from historical ownership interests. To the extent the fair value of an individual's vested units received exceeded an individual's contributed ownership interests, additional expense was recorded. For principals and operating consultants whose value of ownership interests contributed was greater than the value of vested units received, no additional expense was recorded. Compensation expense is recognized for all unvested KKR Holdings units received by an individual over the vesting period.

**KKR PRINCIPAL UNITS** — Units granted to principals give rise to periodic employee compensation charges in the statements of operations based on the grant-date fair value of the award. For units vesting on the grant date, compensation expense is recognized on the date of grant based on the fair value of a unit (determined using the latest available closing price of KKR & Co. L.P.'s common units) on the grant date multiplied by the number of vested units. In conjunction with the Transactions, certain principals received vested units in excess of the fair value of their contributed ownership interests in our historical businesses. Accordingly, to the extent the fair value (calculated as described above) of any vested units received in the Transactions exceeded the fair value of such principal's contributed interests, compensation expense was recorded in the statements of operations.

Compensation expense on unvested units is calculated based on the fair value of a unit (determined using the latest available closing price of KKR & Co. L.P.'s common units) at the time of grant, discounted for the lack of participation rights in the expected distributions on unvested units, which ranges from 1% to 32%, multiplied by the number of unvested units on the grant date. Additionally, the calculation of compensation expense on unvested units assumes a forfeiture rate of up to 4% annually based upon expected turnover by employee class. For the years ended December 31, 2010 and 2009, KKR recorded compensation expense of \$527.0 million and \$451.7 million in relation to equity based awards of KKR Group Partnership Units held through KKR Holdings to principals. There were no amounts recorded for the year ended December 31, 2008. As of December 31, 2010 there was approximately \$452.5 million of estimated unrecognized compensation expense related to unvested awards. That cost is expected to be recognized over a weighted-average period of 1.2 years, using the graded attribution method, which treats each vesting portion as a separate award.

**OPERATING CONSULTANT UNITS** — Certain non-employee operating consultants provide services to KKR and certain of its portfolio companies, payment for which is made in the form of cash and KKR's equity. To the extent that these consultants no longer provide services to KKR, they are required to forfeit any unvested equity received. Units granted to operating consultants described above give rise to periodic general, administrative and other charges in the statements of operations. For units vesting on the grant date, expense is recognized on the date of grant based on the fair value of a unit (determined using the latest available closing price of KKR & Co. L.P.'s common units) on the grant date multiplied by the number of vested units. In conjunction with the Transactions, certain operating consultants received vested units in excess of the fair value of their contributed ownership interests in our historical businesses. Accordingly, to the extent the fair value (calculated as described above) of any vested units received in the Transactions exceeded the fair value of such operating consultant's contributed interests, general, administrative and other expense was recorded in the statements of operations.

General, administrative and other expense recognized on unvested units is calculated based on the fair value of a unit (determined using the latest available closing price of KKR & Co. L.P.'s common units) on each reporting date and subsequently adjusted for the actual fair value

of the award at each vesting date. Accordingly, the measured value of these units will not be finalized until each vesting date. Additionally, the calculation of the general, administrative and other expense assumes a forfeiture rate of up to 4% annually based upon expected turnover by class of operating consultant. For the years ended December 31, 2010 and 2009 KKR recorded general, administrative and other expense of \$95.0 million and \$81.0 million in relation to equity based awards of KKR Group Partnership Units held through KKR Holdings to operating consultants. There were no amounts recorded for the year ended December 31, 2008. As of December 31, 2010, there was approximately \$80.7 million of estimated unrecognized general, administrative and other expense related to unvested awards based on the total fair value of the unvested units on that date. Future general, administrative and other charges are expected to be recognized over a weighted-average period of 1.4 years, using the graded attribution method, which treats each vesting portion as a separate award.

KKR estimated a turnover rate of up to 4% annually as of December 31, 2010 based on expected turnover by employee class. KKR will periodically assess this forfeiture estimate as actual experience is observed and make adjustments to compensation and general, administrative and other expense as deemed necessary.

A summary of the status of KKR's equity based awards granted to KKR principals and operating consultants from January 1, 2010 through December 31, 2010 are presented below:

Unvested Units	KKR Principals		Operating Consultants	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2010	149,574,399	\$ 8.09	18,298,202	\$ 8.15
Granted	5,539,600	\$ 8.85	1,270,000	\$ 8.34
Vested	(39,080,839)	\$ 9.16	(4,851,824)	\$ 9.18
Forfeited	(4,428,304)	\$ 8.06	(2,481,462)	\$ 7.94
Balance, December 31, 2010	111,604,856	\$ 7.76	12,234,916	\$ 7.80

	Principal Awards	Operating Consultant Awards
Weighted average remaining vesting period (in years) over which unvested units are expected to vest	2.2	2.1

The following table summarizes the remaining vesting tranches for principals and operating consultants:

Vesting Date	Principal Units	Operating Consultant Units
April 1, 2011	3,764,067	928,268
October 1, 2011	26,869,757	2,780,440
April 1, 2012	942,012	107,009
October 1, 2012	26,362,814	2,711,071
April 1, 2013	379,950	100,000
October 1, 2013	26,247,458	2,704,064
April 1, 2014	354,780	100,000
October 1, 2014	26,247,458	2,704,064
April 1, 2015	354,780	100,000
October 1, 2015	81,780	—
	111,604,856	12,234,916

**RESTRICTED EQUITY UNITS** — Upon completion of the Transactions, grants of restricted equity units based on KKR Group Partnership Units held by KKR Holdings were made to professionals, support staff, and other personnel. These will be funded by KKR Holdings and will not dilute KKR's interests in the KKR Group Partnerships. The vesting of these equity units occurs in installments up to five years from the date of grant and was contingent on, among other things, KKR's common units becoming listed and traded on the NYSE or another U.S. exchange. On July 15, 2010, KKR & Co. L.P. completed its listing on the NYSE. This event satisfied the contingency described above and accordingly, KKR recorded compensation expense of \$34.0 million and general, administrative and other expense of \$17.1 million during the quarter ended June 30, 2010 in relation to these awards. This reflected the cumulative vesting of the units from the grant date to June 30, 2010. For the year ended December 31, 2010, KKR recorded compensation expense of \$37.7 million and general, administrative and other expense of \$27.8 million in relation to the restricted equity awards including the amounts above.

As of December 31, 2010, there was approximately \$21.6 million of estimated unrecognized expense related to unvested awards. That cost is expected to be recognized over a weighted average period of 0.9 years, using the graded attribution method, which treats each vesting portion as a separate award.

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A summary of the status of KKR Holding's restricted equity awards granted to KKR professionals, support staff, and other personnel from January 1, 2010 through December 31, 2010 are presented below:

Unvested Units	Restricted Equity Units	
	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2010	8,559,679	\$ 9.35
Granted	380,650	\$ 11.09
Vested	(4,615,195)	\$ 9.36
Forfeited	(340,298)	\$ 9.35
Balance, December 31, 2010	3,984,836	\$ 9.51

**DISCRETIONARY COMPENSATION AND DISCRETIONARY ALLOCATIONS —**

Certain KKR principals who hold KKR Group Partnership Units through KKR Holdings units are expected to be allocated, on a discretionary basis, distributions on KKR Group Partnership Units received by KKR Holdings. These discretionary amounts entitle the principal to receive amounts in excess of their vested equity interests. Because unvested units do not have distribution participation rights, any amounts allocated in excess of a principal's vested equity interests are reflected as employee compensation and benefits expense. These compensation charges have been recorded based on the unvested portion of quarterly earnings distributions received by KKR Holdings. Compensation charges relating to this discretionary allocation amounted to \$136.7 million and \$28.5 million for the years ended December 31, 2010 and 2009, respectively. There were no amounts recorded for the year ended December 31, 2008.

**KKR & Co. L.P. 2010 Equity Incentive Plan**

Under the KKR & Co. L.P. 2010 Equity Incentive Plan (the "Equity Incentive Plan"), KKR is permitted to grant to employees, the directors of the Managing Partner, operating consultants and senior advisors, non-qualified unit options, unit appreciation rights, restricted common units, deferred restricted common units, phantom restricted common units and other awards representing KKR & Co. L.P. common units. The issuance of KKR & Co. L.P. common units pursuant to awards under the Equity Incentive Plan dilute common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR Group Partnerships. The total number of common units that may be issued under the Equity Incentive Plan is equivalent to 15% of the number of fully diluted common units outstanding, subject to annual adjustment. As of December 31, 2010, 30,000 KKR & Co. L.P. common units have been granted under the Equity Incentive Plan, which vest over one year from the date of grant.

**11. RELATED PARTY TRANSACTIONS**

Due from and to Affiliates consists of:

December 31,	2010	2009
Due from Principals <sup>(a)</sup>	\$ 55,937	\$ 77,075
Due from Related Entities	\$ 52,319	\$ 28,846
Due from Portfolio Companies	\$ 28,300	\$ 18,067
	<u>\$136,556</u>	<u>\$123,988</u>
Due to KKR Holdings, L.P. in Connection with the Tax Receivable Agreement <sup>(b)</sup>	\$ 16,185	\$ —
Due to Unconsolidated Funds	1,862	—
Due to KKR Holdings L.P. <sup>(c)</sup>	—	87,741
	<u>\$ 18,047</u>	<u>\$ 87,741</u>

(a) Represents an amount due from KKR principals for the amount of the clawback obligation that would be required to be funded by KKR principals who do not hold direct controlling and economic interests in the KKR Group Partnerships. In periods prior to the Transactions, such amount was reflected as a capital deficit within partners' capital given the KKR principals held controlling and economic interests in the historical KKR. See Note 13 "Commitments and Contingencies".

(b) Represents amounts owed to KKR Holdings and/or its principals under the Tax Receivable Agreement. (see Note 2, "Summary of Significant Accounting Policies — Tax Receivable Agreement")

(c) Prior to the Transactions, KKR made an in-kind distribution of certain receivables of our management companies to KKR Holdings. These receivables represented amounts owed by our consolidated KKR Funds to our management companies. Subsequent to the distribution of these receivables, the amounts owed by the KKR Funds are payable to KKR Holdings and as such are no longer payable to a consolidated entity. Accordingly, the payable that existed at December 31, 2009 at the KKR Funds is reflected in Due to Affiliates. In periods prior to the Transactions, such amounts were eliminated in consolidation. This amount was paid to KKR Holdings in January 2010.

**KKR Financial Holdings LLC ("KFN")**

KFN is a publicly traded specialty finance company whose limited liability company interests are listed on the NYSE under the symbol "KFN." KFN is managed by KKR but is not under the common control of the Senior Principals or otherwise consolidated by KKR as control is maintained by third-party investors. KFN was organized in August 2004 and completed its initial public offering on June 24, 2005. As of December 31, 2010 and 2009, KFN had consolidated assets of \$8.4 billion and \$10.3 billion, respectively, and shareholders' equity of \$1.6 billion and \$1.2 billion, respectively. Shares of KFN held by KKR are accounted for as trading securities (see Note 2, "Summary of Significant Accounting Policies — Management and Incentive fees") and represented less than 1% of KFN's outstanding shares as of December 31, 2010 and December 31, 2009. If KKR were to exercise all of each of its outstanding vested options, KKR's ownership interest in KFN would be less than 1% of KFN's outstanding shares as of December 31, 2010 and 2009.

**Discretionary Investments**

Certain of KKR's investment professionals, including its principals and other qualifying employees, are permitted to invest, and have invested, their own capital in side-by-side investments with its private equity funds. Side-by-side investments are investments in Portfolio Companies that are made on the same terms and conditions as those acquired by the applicable fund, except that the side-by-side investments are not subject to management fees or a carried interest. The cash invested by these individuals aggregated \$66.8 million, \$46.7 million and \$25.1 million for the years ended December 31, 2010, 2009 and 2008, respectively. These investments are not included in the accompanying financial statements.

### Aircraft and Other Services

Certain of the Senior Principals own aircraft that KKR uses for business purposes in the ordinary course of its operations. These Senior Principals paid for the purchase of these aircraft with their personal funds and bear all operating, personnel and maintenance costs associated with their operation. The hourly rates that KKR pays for the use of these aircraft are based on current market rates for chartering private aircraft of the same type. KKR incurred \$5.2 million, \$6.9 million and \$7.9 million for the use of these aircraft for the years ended December 31, 2010, 2009 and 2008, respectively.

### Facilities

Certain of the Senior Principals are partners in a real-estate based partnership that maintains an ownership interest in KKR's Menlo Park location. Payments made to this partnership were \$6.4 million, \$5.7 million and \$2.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

## 12. SEGMENT REPORTING

KKR operates through three reportable business segments. These segments, which are differentiated primarily by their investment focuses and strategies, consist of the following:

### Private Markets

Through the Private Markets segment, KKR manages and sponsors a group of private equity funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. These investment funds and co-investment vehicles are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC registered investment adviser. KKR also manages investments in infrastructure and natural resources.

### Public Markets

Through the Public Markets segment, KKR manages a specialty finance company, a number of investment funds, structured finance vehicles and separately managed accounts that invest capital in liquid credit strategies, such as leveraged loans and high yield bonds, and less liquid credit products such as mezzanine debt and special situations investments. These funds, vehicles and accounts are managed by KKR Asset Management LLC (which we refer to as "KAM"), an SEC registered investment adviser.

### Capital Markets and Principal Activities

The Capital Markets and Principal Activities segment combines the assets acquired in the Combination Transaction with the global capital markets business. KKR's capital markets services include arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets services.

### Key Performance Measures

Fee Related Earnings ("FRE") and Economic Net Income ("ENI") are key performance measures used by management. These measures are used by management in making resource deployment and operating decisions as well as assessing the overall performance of each of KKR's business segments.

### FRE

FRE is comprised of segment operating revenues, less segment operating expenses. The components of FRE on a segment basis differ from the equivalent U.S. GAAP amounts on a consolidated basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of expenses of consolidated funds; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity charges and other non-cash compensation charges borne by KKR Holdings; (vi) the exclusion of certain reimbursable expenses and (vii) the exclusion of certain non-recurring items.

### ENI

ENI is a measure of profitability for KKR's reportable segments and is comprised of: (i) FRE; plus (ii) segment investment income, which is reduced for carry pool allocations and management fee refunds; less (iii) certain economic interests in KKR's segments held by third parties. ENI differs from net income (loss) on a GAAP basis as a result of: (i) the exclusion of the items referred to in FRE above; (ii) the exclusion of investment income relating to noncontrolling interests; and (iii) the exclusion of income taxes.

KKR's reportable segments are presented prior to giving effect to the allocation of income (loss) between KKR and KKR Holdings and as such represents KKR's business in total. In connection with the Transactions, KKR changed the format of its segment financial information in order to: (i) properly reflect the economic arrangements resulting from the Transactions, and (ii) provide more detail regarding fees and investment income. KKR has adjusted its segment financial information for year ended December 31, 2008 to reflect these changes, where applicable. None of these changes impacted economic net income.

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The following table presents the financial data for KKR's reportable segments as of and for the year ended December 31, 2010:

<i>As of and for the Year Ended December 31, 2010</i>	Private Markets	Public Markets	Capital Markets and Principal Activities	Total Reportable Segments
<b>Fees</b>				
Management and incentive fees:				
Management fees	\$ 396,227	\$ 57,059	\$ —	\$ 453,286
Incentive fees	—	38,832	—	38,832
Management and incentive fees	396,227	95,891	—	492,118
Monitoring and transaction fees:				
Monitoring fees	86,932	—	—	86,932
Transaction fees	96,000	19,117	105,266	220,383
Fee Credits <sup>(1)</sup>	(52,563)	(12,336)	—	(64,899)
Net monitoring and transaction fees	130,369	6,781	105,266	242,416
Total fees	526,596	102,672	105,266	734,534
<b>Expenses</b>				
Employee compensation and benefits	159,561	29,910	16,863	206,334
Occupancy and Related Charges	36,395	2,375	945	39,715
Other Operating Expense	148,357	13,430	8,376	170,163
Total expenses	344,313	45,715	26,184	416,212
Fee related earnings	182,283	56,957	79,082	318,322
<b>Investment income (loss)</b>				
Gross carried interest	1,202,070	5,000	—	1,207,070
Less: Allocation to KKR carry pool <sup>(2)</sup>	(453,872)	(2,000)	—	(455,872)
Less: Management fee refunds <sup>(3)</sup>	(143,446)	—	—	(143,446)
Net carried interest	604,752	3,000	—	607,752
Other investment income (loss)	(1,643)	718	1,219,053	1,218,128
Total investment income (loss)	603,109	3,718	1,219,053	1,825,880
Income (loss) before noncontrolling interests in income of consolidated entities	785,392	60,675	1,298,135	2,144,202
Income (loss) attributable to noncontrolling interests <sup>(4)</sup>	839	537	3,033	4,409
Economic net income (loss) <sup>(5)</sup>	\$ 784,553	\$ 60,138	\$ 1,295,102	\$ 2,139,793
Total Assets	\$ 947,155	\$ 66,230	\$ 5,388,072	\$ 6,401,457
Total Partners' Capital	\$ 844,657	\$ 55,271	\$ 4,825,698	\$ 5,725,626

(1) KKR's agreements with the limited partners of certain of its investment funds require KKR to share with such limited partners a portion of any monitoring and transaction fees received from portfolio companies and allocable to their funds ("Fee Credits"). Fee Credits exclude fees that are not attributable to a fund's interest in a portfolio company and generally amount to 80% of monitoring and transaction fees allocable to the fund after related expenses are recovered.

(2) With respect to KKR's active and future investment funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals, other professionals and selected other individuals who work in these operations a portion of the carried interest earned in relation to these funds as part of its carry pool.

(3) Certain of KKR's investment funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of management fees earned. In periods where investment returns subsequently decrease or turn negative, recognized carried interest will be reduced and consequently the amount of the management fee refund would be reduced resulting in income being recognized during the period.

(4) Represents economic interests that will (i) allocate to a former principal an aggregate of 1% of profits and losses of KKR's management companies until a future date and (ii) allocate to a third party investor approximately of 2% of the equity in KKR's capital markets business.

The following table reconciles KKR's total reportable segments to the financial statements as of and for the year ended December 31, 2010:

<i>As of and for the Year Ended December 31, 2010</i>	Total Reportable Segments	Adjustments	Consolidated
Fees <sup>(a)</sup>	\$ 734,534	\$ (299,148)	\$ 435,386
Expenses <sup>(b)</sup>	\$ 416,212	\$ 1,346,451	\$ 1,762,663
Investment income (loss) <sup>(c)</sup>	\$1,825,880	\$ 7,353,228	\$ 9,179,108
Income (loss) before taxes	\$2,144,202	\$ 5,707,629	\$ 7,851,831
Income (loss) attributable to noncontrolling interests	\$ 4,409	\$ 6,539,607	\$ 6,544,016
Income (loss) attributable to KKR Holdings	\$ —	\$ 899,277	\$ 899,277
Total assets <sup>(d)</sup>	\$ 6,401,457	\$ 31,989,700	\$ 38,391,157
Total Partners' Capital <sup>(e)</sup>	\$5,725,626	\$30,274,416	\$36,000,042

(a) The fees adjustment primarily represents (i) the elimination of management fees of (\$388,501), (ii) fee credits of \$57,043 upon consolidation of the KKR Funds, and (iii) a gross up of reimbursable expenses of \$32,310.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity based charges which amounted to \$824,193, (ii) allocations to the carry pool of \$455,872, (iii) a gross up of reimbursable expenses of \$32,310, (iv) operating expenses of \$20,719 primarily associated with the inclusion of operating expenses upon consolidation of the KKR Funds and (v) other adjustments of \$13,357.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of investment income of \$6,753,910 attributable to noncontrolling interests upon consolidation of the KKR Funds, (ii) allocations to the carry pool of \$455,872, and (iii) management fee refunds of \$143,446.

(d) Substantially all of the total assets adjustment represents the inclusion of private equity and other investments that are attributable to noncontrolling interests upon consolidation of the KKR Funds.

(e) Substantially all of the total partners' capital adjustment represents the inclusion of private equity and other investments that are attributable to noncontrolling interests.

The reconciliation of economic net income (loss) to net income (loss) attributable to KKR as reported in the statements of operations consists of the following:

Year Ended December 31,	2010
Economic net income (loss)	2,139,793
Income taxes	(75,360)
Amortization of intangibles	(7,785)
Non-cash equity based payments	(824,193)
Allocation to KKR Holdings	(899,277)
Net income attributable to KKR & Co. L.P.	<b>\$ 333,178</b>

The following table presents the financial data for KKR's reportable segments as of and for the year ended December 31, 2009:

As of and for the Year Ended December 31, 2009	Private Markets	Public Markets	Capital Markets and Principal Activities	Total Reportable Segments
<b>Fees</b>				
Management and incentive fees:				
Management fees	\$ 415,207	\$ 50,754	\$ —	\$ 465,961
Incentive fees	—	4,472	—	4,472
Management and incentive fees	415,207	55,226	—	470,433
Monitoring and transaction fees:				
Monitoring fees	158,243	—	—	158,243
Transaction fees	57,699	—	34,129	91,828
Fee Credits <sup>(1)</sup>	(73,900)	—	—	(73,900)
Net monitoring and transaction fees	142,042	—	34,129	176,171
Total fees	557,249	55,226	34,129	646,604
<b>Expenses</b>				
Employee compensation and benefits	147,801	24,086	9,455	181,342
Occupancy and Related Charges	34,747	2,483	783	38,013
Other Operating Expense	134,610	18,103	5,238	157,951
Total expenses	317,158	44,672	15,476	377,306
Fee related earnings	240,091	10,554	18,653	269,298
<b>Investment income (loss)</b>				
Gross carried interest	826,193	—	—	826,193
Less: allocation to KKR carry pool <sup>(2)</sup>	(57,971)	—	—	(57,971)
Less: management fee refunds <sup>(3)</sup>	(22,720)	—	—	(22,720)
Net carried interest	745,502	—	—	745,502
Other investment income (loss)	128,528	(5,260)	349,679	472,947
Total investment income (loss)	874,030	(5,260)	349,679	1,218,449
Income (loss) before noncontrolling interests in income of consolidated entities	1,114,121	5,294	368,332	1,487,747
Income (loss) attributable to noncontrolling interests <sup>(4)</sup>	497	15	581	1,093
Economic net income (loss) <sup>(5)</sup>	\$ 1,113,624	\$ 5,279	\$ 367,751	\$ 1,486,654
<b>Allocation of Economic net income (loss)</b>				
Economic net income (loss) attributable to KKR Holdings L.P. <sup>(5)</sup>	\$ \$101,898	\$ 1,015	\$ 257,766	\$ 360,679
Economic net income (loss) attributable to KKR Group Holdings L.P.	\$ \$1,011,726	\$ 4,264	\$ 109,985	\$ 1,125,975
Total Assets	\$ \$362,128	\$ 62,408	\$ 4,660,132	\$ 5,084,668
Total Partners' Capital	\$ \$277,062	\$ 49,581	\$ 3,826,241	\$ 4,152,884

(1) KKR's agreements with the limited partners of certain of its investment funds require KKR to share with such limited partners a portion of any monitoring and transaction fees received from portfolio companies and allocable to their funds ("Fee Credits"). Fee Credits exclude fees that are not attributable to a fund's interest in a portfolio company and generally amount to 80% of monitoring and transaction fees allocable to the fund after related expenses are recovered.

(2) With respect to KKR's active and future investment funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals, other professionals and selected other individuals who work in these operations a portion of the carried interest earned in relation to these funds as part of its carry pool.

(3) Certain of KKR's investment funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of management fees earned. In periods where investment returns subsequently decrease or turn negative, recognized carried interest will be reduced and consequently the amount of the management fee refund would be reduced resulting in income being recognized during the period.

(4) Represents economic interests that will allocate to a third party investor approximately of 2% of the equity in KKR's capital markets business.

(5) Represents nine months of historical economic net income (loss) totaling \$971,399, which is 100% allocable to Group Holdings and three months of economic net income (loss) totaling \$515,255, of which 70% or \$360,679 is allocated to KKR Holdings, and the remaining 30% or \$154,576 is allocated to Group Holdings.

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The following table reconciles KKR's total reportable segments to the consolidated financial statements as of and for the year ended December 31, 2009:

<i>As of and for the Year Ended December 31, 2009</i>	Total Reportable Segments	Adjustments	Consolidated
Fees <sup>(a)</sup>	\$ 646,604	\$ (315,333)	\$ 331,271
Expenses <sup>(b)</sup>	\$ 377,306	\$ 818,404	\$ 1,195,710
Investment income (loss) <sup>(c)</sup>	\$ 1,218,449	\$ 6,535,359	\$ 7,753,808
Income (loss) before taxes	\$ 1,487,747	\$ 5,401,622	\$ 6,889,369
Income (loss) attributable to noncontrolling interests	\$ 1,093	\$ 6,118,289	\$ 6,119,382
Income (loss) attributable to KKR Holdings	\$ —	\$ (116,696)	\$ (116,696)
Total assets <sup>(d)</sup>	\$5,084,668	\$ 25,136,443	\$ 30,221,111
Total Partners' Capital <sup>(e)</sup>	\$ 4,152,884	\$23,208,597	\$27,361,481

(a) The fees adjustment primarily represents (i) the elimination of management fees of \$(405,466), (ii) fee credits of \$73,900 upon consolidation of the KKR Funds, and (iii) a gross up of reimbursable expenses of \$16,233.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity based payments which amounted to \$562,373, (ii) allocations to the carry pool of \$173,511, (iii) operating expenses of \$34,846 associated with the Transactions included in consolidated expenses and excluded from segment reporting, (iv) gross up of reimbursable expense of \$16,233 and (v) other operating expenses of \$31,441 primarily associated with the inclusion of operating expenses upon consolidation of the KKR Funds.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of investment income of \$6,448,557 attributable to noncontrolling interests upon consolidation of the KKR Funds, (ii) allocations to the carry pool of \$57,971 and (iii) other adjustments of \$28,831.

(d) Substantially all of the total assets adjustment represents the inclusion of private equity and other investments that are attributable to noncontrolling interests upon consolidation of the KKR Funds.

(e) Substantially all of the total partners' capital adjustment represents the inclusion of private equity and other investments that are attributable to noncontrolling interests upon consolidation of the KKR Funds.

The reconciliation of economic net income (loss) to net income (loss) attributable to KKR as reported in the statements of operations consists of the following:

<i>Year Ended December 31,</i>	2009
Economic net income (loss)	1,486,654
Income taxes	(36,998)
Amortization of intangibles	(3,788)
Costs relating to the Transactions <sup>(a)</sup>	(34,846)
Adjustments to carry:	
Allocations to carry pool recorded in connection with the Transactions	(115,540)
Non-cash equity based payments	(562,373)
Allocations to former principals	(120)
Allocation to KKR Holdings	116,696
Net income attributable to KKR & Co. L.P.	\$ 849,685

(a) During the year ended December 31, 2009, KKR's Private Markets other operating expenses excluded \$34.8 million incurred in connection with the Transactions. KKR has excluded this charge from its segment financial information as such amount will be not be considered when assessing the performance of, or allocating resources to, each of its business segments and is non-recurring in nature. In the statements of operations, this charge is included in general, administrative and other expenses.

The following table presents the financial data for KKR's reportable segments as of and for the year ended December 31, 2008:

<i>As of and for the Year Ended December 31, 2008</i>	Private Markets	Public Markets	Capital Markets and Principal Activities	Total Reportable Segments
<b>Fees</b>				
Management and incentive fees:				
Management fees	\$ 396,394	\$ 59,342	\$ —	\$ 455,736
Incentive fees	—	—	—	—
Management and incentive fees	396,394	59,342	—	455,736
Monitoring and transactions fees:				
Monitoring fees	97,256	—	—	97,256
Transaction fees	23,096	—	18,211	41,307
Fee Credits <sup>(1)</sup>	(12,698)	—	—	(12,698)
Net monitoring and transaction fees	107,654	—	18,211	125,865
Total fees	504,048	59,342	18,211	581,601
<b>Expenses</b>				
Employee compensation and benefits	135,204	20,566	7,094	162,864
Occupancy and Related Charges	27,665	2,134	727	30,526
Other Operating Expenses	185,027	4,066	5,093	194,186
Total Expenses	347,896	26,766	12,914	387,576
Fee related earnings	156,152	32,576	5,297	194,025
<b>Investment income (loss)</b>				
Gross carried interest	(1,197,387)	—	—	(1,197,387)
Less: allocation to KKR carry pool <sup>(2)</sup>	8,156	—	—	8,156
Less: management fee refunds <sup>(3)</sup>	29,611	—	—	29,611
Net carried interest	(1,159,620)	—	—	(1,159,620)
Other investment income (loss)	(230,053)	10,687	(4,129)	(223,495)
Total investment income (loss)	(1,389,673)	10,687	(4,129)	(1,383,115)
Income (loss) before noncontrolling interests in income of consolidated entities	(1,233,521)	43,263	1,168	(1,189,090)
Income (loss) attributable to noncontrolling interests <sup>(4)</sup>	—	6,421	(37)	6,384
Economic net income (loss)	\$(1,233,521)	\$36,842	\$ 1,205	\$(1,195,474)
Total Assets	\$ 285,154	\$52,256	\$26,148	\$ 363,558
Total Partners' Capital	\$ 97,249	\$45,867	\$10,974	\$ 154,090

- (1) KKR's agreements with the limited partners of certain of its investment funds require KKR to share with such limited partners a portion of any monitoring and transaction fees received from portfolio companies and allocable to their funds ("Fee Credits"). Fee Credits exclude fees that are not attributable to a fund's interest in a portfolio company and generally amount to 80% of monitoring and transaction fees allocable to the fund after related expenses are recovered.
- (2) With respect to KKR's active and future investment funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals, other professionals and selected other individuals who work in these operations a portion of the carried interest earned in relation to these funds as part of its carry pool.
- (3) Certain of KKR's investment funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of management fees earned. In periods where investment returns subsequently decrease or turn negative, recognized carried interest will be reduced and consequently the amount of the management fee refund would be reduced resulting in income being recognized during the period.
- (4) Represents economic interests that will (i) allocate to a former principal an aggregate of 1% of profits and losses of KKR's management companies until a future date and (ii) allocate to a third party investor approximately of 2% of the equity in KKR's capital markets business.

The following table reconciles KKR's total reportable segments to the financial statements as of and for the year ended December 31, 2008:

<i>As of and for the Year Ended December 31, 2008</i>	Total Reportable Segments	Adjustments	Consolidated
Fees <sup>(a)</sup>	\$ 581,601	\$ (346,420)	\$ 235,181
Expenses <sup>(b)</sup>	\$ 387,576	\$ 30,812	\$ 418,388
Investment income (loss) <sup>(c)</sup>	\$ (1,383,115)	\$ (11,482,124)	\$(12,865,239)
Income (loss) before taxes	\$(1,189,090)	\$(11,859,356)	\$(13,048,446)
Income (loss) attributable to noncontrolling interests	\$ 6,384	\$ (11,857,145)	\$ (11,850,761)
Income (loss) attributable to KKR Holdings	\$ —	\$ —	\$ —
Total assets <sup>(d)</sup>	\$ 363,558	\$22,077,472	\$ 22,441,030
Total Partners' Capital <sup>(e)</sup>	\$ 154,090	\$ 19,696,267	\$ 19,850,357

- (a) The fees adjustment primarily represents (i) the elimination of management fees of \$(397,096), (ii) fee credits of \$12,698 upon consolidation of the KKR Funds, (iii) a gross up of reimbursable expenses of \$22,976 and (iv) other net adjustments of \$15,002.
- (b) The expenses adjustment consists of (i) the reflection of allocations to the carry pool of \$(8,156) in consolidated expenses, (ii) a gross up of reimbursable expenses in the consolidated financial results of \$22,976 and (iii) the inclusion of \$15,992 of other operating expenses primarily relating to the consolidation of the KKR Funds.
- (c) The investment income (loss) adjustment primarily represents (i) the inclusion of investment income of \$(11,433,477) attributable to noncontrolling interests upon consolidation of the KKR Funds, (ii) allocations to the carry pool of \$(8,156), and (iii) other adjustments of \$(40,491).
- (d) Substantially all of the total assets adjustment represents the inclusion of private equity and other investments that are attributable to noncontrolling interests upon consolidation of the KKR Funds.
- (e) Substantially all of the total partners' capital adjustment represents the inclusion of private equity and other investments that are attributable to noncontrolling interests.

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The reconciliation of economic net income (loss) to net income (loss) attributable to KKR as reported in the statements of operations consists of the following:

Year Ended December 31,	2008
Economic net income (loss)	(1,195,474)
Income taxes	(6,786)
Amortization of intangibles	(2,211)
Net income attributable to KKR & Co. L.P.	\$(1,204,471)

**13. COMMITMENTS AND CONTINGENCIES**

**Debt Covenants**

Borrowings of KKR contain various customary debt covenants. These covenants do not, in management's opinion, materially restrict KKR's investment or financing strategies. KKR is in compliance with all of its debt covenants as of December 31, 2010.

**Investment Commitments**

As of December 31, 2010, KKR had unfunded commitments to its private equity and other investment vehicles of \$923.7 million. In addition, KKR Capital Markets had an unfunded commitment of \$14.7 million related to one portfolio company revolving credit facility as of December 31, 2010.

**Non-cancelable Operating Leases**

KKR's non-cancelable operating leases consist primarily of leases of office space around the globe. There are no material rent holidays, contingent rent, rent concessions or leasehold improvement incentives associated with any of these property leases. In addition to base rentals, certain lease agreements are subject to escalation provisions and rent expense is recognized on a straight-line basis over the term of the lease agreement.

As of December 31, 2010, the approximate aggregate minimum future lease payments, net of sublease income, required on the operating leases are as follows:

2011	\$ 30,908
2012	25,022
2013	25,336
2014	25,468
2015	20,113
2016 and Thereafter	96,160
Total minimum payments required	\$223,007

**Contingent Repayment Guarantees**

The instruments governing KKR's private equity funds generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation that may require the general partners to return amounts to the fund for distribution to the limited partners at the end of the life of the fund. Under a "clawback" provision, upon the liquidation of a fund, the general partner is required to return, on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled. As of December 31, 2010, the amount of carried interest KKR principals have received, that is subject to this clawback provision was \$697.0 million, assuming that all applicable private equity funds were liquidated at no value. Had the investments in such funds been liquidated at their December 31, 2010 fair values, the clawback obligation would have been \$61.5 million of which \$55.9 million is recorded in Due from Affiliates and \$5.6 million is due from noncontrolling interest holders.

Prior to the Transactions, certain KKR principals who received carried interest distributions with respect to the private equity funds had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of the private equity funds to repay amounts to fund limited partners pursuant to the general partners' clawback obligations.

The terms of the Transactions require that KKR principals remain responsible for any clawback obligations relating to carry distributions received prior to the Transactions up to a maximum of \$223.6 million. At December 31, 2010, KKR has recorded a receivable of \$55.9 million within Due from Affiliates for the amount of the clawback obligation given that would be required to be funded by KKR principals who do not hold direct controlling economic interests in the KKR Group Partnerships. In periods prior to the Transactions, such amount was reflected as a capital deficit within partners' capital given the KKR principals held controlling economic interests in the historical KKR.

Carry distributions arising subsequent to the Transactions will be allocated to KKR, KKR Holdings and KKR principals (as carry pool participants) in accordance with the terms of the instruments governing the KKR Group Partnerships. KKR will indemnify its principals for any personal guarantees that they have provided with respect to such amounts.

The instruments governing certain of KKR's private equity funds may also include a "net loss sharing provision," that, if triggered, may give rise to a contingent obligation that may require the general partners to contribute capital to the fund, to fund 20% of the net losses on investments. In connection with the "net loss sharing provisions," certain of KKR's private equity vehicles allocate a greater share of their investment losses to KKR relative to the amounts contributed by KKR to those vehicles. In these vehicles, such losses would be required to be paid by KKR to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed. Based on the fair market values as of December 31, 2010, there would have been no net losing sharing obligation. If the vehicles were liquidated at zero value, the contingent repayment obligation would have been approximately \$1,094.0 million as of December 31, 2010.

**Indemnifications**

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

**Litigation**

From time to time, KKR is involved in various legal proceedings, lawsuits and claims incidental to the conduct of KKR's business. KKR's business is also subject to extensive regulation, which may result in regulatory proceedings against it.

In August 1999, KKR and certain of its current and former personnel were named as defendants in an action brought in the Circuit Court of Jefferson County, Alabama, or the Alabama State Court, alleging breach of fiduciary duty and conspiracy in connection with the acquisition of Bruno's, Inc. ("Bruno's"), one of KKR's former portfolio companies, in 1995. The action was removed to the U.S. Bankruptcy Court for the Northern District of Alabama. In April 2000, the complaint in this action was amended to further allege that KKR and others violated state law by fraudulently misrepresenting the financial condition of Bruno's in an August 1995 subordinated notes offering relating to the acquisition and in Bruno's subsequent periodic financial disclosures. In January 2001, the action was transferred to the U.S. District Court for the Northern District of Alabama. In August 2009, the action was consolidated with a similar action brought against the underwriters of the August 1995 subordinated notes offering, which is pending before

the Alabama State Court. The plaintiffs are seeking compensatory and punitive damages, in an unspecified amount to be proven at trial, for losses they allegedly suffered in connection with their purchase of the subordinated notes. In September 2009, KKR and the other named defendants moved to dismiss the action. In April 2010, the Alabama State Court granted in part and denied in part the motion to dismiss. As suggested by the Alabama State Court, KKR has filed a petition seeking an immediate appeal of certain rulings made by the Alabama State Court when denying the motion to dismiss. In June and July 2010, the Alabama Supreme Court ordered the parties to brief KKR's petition and the petition filed by another defendant seeking an immediate appeal of certain rulings made by the Alabama State Court. Briefing on both petitions has been completed, and both petitions are under consideration. KKR believes that this action is without merit and intends to defend it vigorously.

In 2005, KKR and certain of its current and former personnel were named as defendants in now-consolidated shareholder derivative actions in the Court of Chancery of the State of Delaware relating to PRIMEDIA Inc. ("PRIMEDIA"), one of its portfolio companies. These actions claim that the board of directors of PRIMEDIA breached its fiduciary duty of loyalty in connection with the redemption of certain shares of preferred stock in 2004 and 2005. The plaintiffs further allege that KKR benefited from these redemptions of preferred stock at the expense of PRIMEDIA and that KKR usurped a corporate opportunity of PRIMEDIA in 2002 by purchasing shares of its preferred stock at a discount on the open market while causing PRIMEDIA to refrain from doing the same. In February 2008, the special litigation committee formed by the board of directors of PRIMEDIA, following a review of plaintiffs' claims, filed a motion to dismiss the actions. In March 2010, plaintiffs filed an amended complaint, including additional allegations concerning purchases of PRIMEDIA's preferred stock in 2002. Plaintiffs seek unspecified damages on behalf of PRIMEDIA and an award of attorneys' fees and costs. On June 16, 2010, the Vice Chancellor of the Court of Chancery of the State of Delaware entered an order dismissing all claims asserted against the defendants. On July 15, 2010, the plaintiffs filed a notice of appeal with the Supreme Court of Delaware. Briefing on the appeal has been completed, and oral argument is scheduled to be held before the Supreme Court of Delaware on March 23, 2011. KKR believes that this action is without merit and intends to defend it vigorously.

In December 2007, KKR, along with 15 other private equity firms and investment banks, were named as defendants in a purported class action complaint filed in the United States District Court for the District of Massachusetts by shareholders in certain public companies acquired by private equity firms since 2003. In August 2008, KKR, along with 16 other private equity firms and investment banks, were named as defendants in a purported consolidated amended class action complaint. The suit alleges that from mid-2003 defendants have violated antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. The amended complaint seeks injunctive relief on behalf of all persons who sold securities to any of the defendants in leveraged buyout transactions and specifically challenges nine transactions. The first stage of discovery concluded on or about April 15, 2010. On August 18, 2010, the court granted plaintiffs' motion to proceed to a second stage of discovery in part and denied it in part. Specifically, the court granted a second stage of discovery as to eight additional transactions but denied a second stage of discovery as to any transactions beyond the additional eight specified transactions. On October 7, 2010, the plaintiffs filed under seal a fourth amended complaint that includes new factual allegations concerning the additional eight transactions and the original nine transactions. The fourth amended complaint also includes eight purported sub-classes of plaintiffs seeking unspecified monetary damages and/or restitution with respect to eight of the original nine challenged transactions and new separate claims against two of the original nine challenged transactions. On January 13,

2011, the court granted a motion filed by KKR and certain other defendants to dismiss all claims alleged by a putative damages sub-class in connection with the acquisition of PanAmSat Corp. and separate claims for relief related to the PanAmSat transaction. The second phase of discovery permitted by the court is ongoing. KKR believes that this action is without merit and intends to defend it vigorously.

KKR, along with two other private equity firms (collectively the "Sponsors"), is a defendant in purported shareholder class actions arising out of the proposed acquisition of Del Monte Foods Company ("Del Monte") by Blue Acquisition Group, Inc. and Blue Merger Sub Inc., entities controlled by private equity funds affiliated with the Sponsors (the "Acquisition Entities"). The complaints generally allege, among other things, that the Del Monte directors breached their fiduciary duties to Del Monte stockholders by agreeing to sell Del Monte at an unfair price and through an unfair process and by filing an allegedly materially misleading and incomplete proxy statement. The complaints also generally allege that the Sponsors, the Acquisition Entities and Del Monte aided and abetted the directors' breaches of fiduciary duties. The complaints all seek injunctive relief, rescission of the merger agreement, damages and attorneys' fees. The various complaints filed in the Delaware Chancery Court were consolidated on December 31, 2010, under the caption *In re Del Monte Foods Company Shareholders Litigation*, No. 6027-VCL. On February 14, 2011, the Delaware Chancery Court issued a ruling which, among other things, found on the preliminary record before the court that the plaintiff had demonstrated a reasonable likelihood of success on the merits of its aiding and abetting claim against the Sponsors, including KKR. The ruling enjoined defendants from proceeding with the Del Monte stockholder vote, previously scheduled for February 15, 2011, for twenty days and preliminarily enjoined certain deal protection provisions of the merger agreement pending the stockholder vote. On February 18, 2011, an amended complaint was filed in the Delaware action. The amended complaint asserts claims for: (i) breach of fiduciary duty against the Del Monte directors, (ii) aiding and abetting the directors' breaches of fiduciary duty against the Sponsors, the Acquisition Entities, and Barclays Capital, Inc. ("Barclays"), which served as a financial advisor to Del Monte in connection with the proposed acquisition, (iii) breach of contract against the Sponsors arising from a confidentiality agreement between the Sponsors and Del Monte, and (iv) tortious interference with contract against Barclays arising from the aforementioned confidentiality agreement between the Sponsors and Del Monte. Similar shareholder actions are pending against the Del Monte directors, Sponsors and/or the Acquisition Entities in California Superior Court and the United States District Court for the Northern District of California. There has been limited activity in these California cases to date. KKR is still evaluating these Delaware and California actions and expects to defend them vigorously. On March 4, 2011, KKR received a request from the SEC for information regarding issues relating to the Del Monte transaction. KKR is cooperating with the SEC's inquiry.

In August 2008, KFN, the members of KFN's board of directors and certain of its former executive officers, including certain of KKR's current and former personnel, were named in a putative class action complaint filed by the Charter Township of Clinton Police and Fire Retirement System in the United States District Court for the Southern District of New York (the "Charter Litigation"). In March 2009, the lead plaintiff filed an amended complaint, which deleted as defendants the members of KFN's board of directors and named as individual defendants only KFN's former chief executive officer, KFN's former chief operating officer, and KFN's former chief financial officer (the "KFN Individual Defendants," and, together with KFN, "KFN Defendants"). The amended complaint alleges that KFN's April 2007 registration statement and prospectus and the financial statements incorporated therein contained material omissions in violation of Section 11 of the Securities Act of 1933, as amended (the "Securities Act"), regarding the risks and potential losses associated with KFN's real estate-related assets, KFN's ability to finance its real estate-related assets, and the adequacy of KFN's loss reserves for its real estate-related assets (the "alleged Section 11

violation”). The amended complaint further alleges that, pursuant to Section 15 of the Securities Act, the KFN Individual Defendants have legal responsibility for the alleged Section 11 violation. The amended complaint seeks judgment in favor of the lead plaintiff and the putative class for unspecified damages allegedly sustained as a result of the KFN Defendants’ alleged misconduct, costs and expenses incurred by the lead plaintiff in the action, rescission or a rescissory measure of damages, and equitable or injunctive relief. In April 2009, the KFN Defendants filed a motion to dismiss the amended complaint for failure to state a claim under the Securities Act. In November 2010, the court granted the defendants’ motion and dismissed the case with prejudice. Plaintiffs’ time to take an appeal has run, and the judgment is now final.

In August 2008, the members of KFN’s board of directors and its executive officers (the “Kostecka Individual Defendants”) were named in a shareholder derivative action brought by Raymond W. Kostecka, a purported shareholder, in the Superior Court of California, County of San Francisco (the “California Derivative Action”). KFN was named as a nominal defendant. The complaint in the California Derivative Action asserts claims against the Kostecka Individual Defendants for breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment in connection with the conduct at issue in the Charter Litigation, including the filing of the April 2007 Registration Statement with alleged material misstatements and omissions. The complaint seeks judgment in favor of KFN for unspecified damages allegedly sustained as a result of the Kostecka Individual Defendants’ alleged misconduct, costs and disbursements incurred by plaintiff in the action, equitable and/or injunctive relief, restitution, and an order directing KFN to reform its corporate governance and internal procedures to prevent a recurrence of the alleged misconduct. By order dated January 8, 2009, the court approved the parties’ stipulation to stay the proceedings in the California Derivative Action until the Charter Litigation is dismissed on the pleadings or KFN files an answer to the Charter Litigation. In November 2010, the court dismissed the Charter Litigation with prejudice and that judgment is final. The plaintiff in the California Derivative Action subsequently agreed to withdraw his complaint and, a stipulated order dismissing the California Derivative Action was entered on February 14, 2011.

In March 2009, the members of KFN’s board of directors and certain of its executive officers (the “Haley Individual Defendants”) were named in a shareholder derivative action brought by Paul B. Haley, a purported shareholder, in the United States District Court for the Southern District of New York (the “New York Derivative Action”). KFN was named as a nominal defendant. The complaint in the New York Derivative Action asserts claims against the Haley Individual Defendants for breaches of fiduciary duty, breaches of the duty of full disclosure, and for contribution in connection with the conduct at issue in the Charter Litigation, including the filing of the April 2007 registration statement with alleged material misstatements and omissions. The complaint seeks judgment in favor of KFN for unspecified damages allegedly sustained as a result of the Haley Individual Defendants’ alleged misconduct, a declaration that the Haley Individual Defendants are liable to KFN under Section 11 of the Securities Act, costs and disbursements incurred by plaintiff in the action, and an order directing KFN to reform its corporate governance and internal procedures to prevent a recurrence of the alleged misconduct. By order dated June 18, 2009, the Court approved the parties’ stipulation to stay the proceedings in the New York Derivative Action until the Charter Litigation is dismissed on the pleadings or KFN files an answer to the Charter Litigation. In November 2010, the court dismissed the Charter Litigation with prejudice and that judgment is final. The plaintiff in the New York Derivative Action subsequently agreed to withdraw his complaint, and a stipulated order dismissing the New York Derivative Action was entered on February 4, 2011.

In September 2006 and March 2009, KKR received requests for certain documents and other information from the Antitrust Division of the U.S. Department of Justice (“DOJ”) in connection with the DOJ’s investigation of private equity firms to determine whether they have

engaged in conduct prohibited by United States antitrust laws. KKR is fully cooperating with the DOJ’s investigation.

In December 2009, KKR’s subsidiary KKR Asset Management LLC (formerly known as Kohlberg Kravis Roberts & Co. (Fixed Income) LLC) received a request from the SEC for information in connection with its examination of certain investment advisers in order to review trading procedures and valuation practices in the collateral pools of structured credit products. The SEC also requested information regarding the surrender by KFN for cancellation, without consideration, of certain notes that had been issued to KFN by collateral pools of structured credit products. KKR cooperated with the SEC’s examination, which is now completed.

In January 2011, KKR received a request from the SEC for information regarding its investors and clients that are sovereign wealth funds and certain services provided by KKR. KKR is cooperating with the SEC’s investigation.

Moreover, in the ordinary course of business KKR is subject to regulatory examinations or investigations and also is and can be both the defendant and the plaintiff in numerous actions with respect to acquisitions, bankruptcy, insolvency and other types of proceedings. Such lawsuits may involve claims that adversely affect the value of certain investments owned by KKR’s funds.

No loss contingency has been recorded in any period presented in the financial statements, because such losses are either not probable or reasonably estimable (or both) at the present time. Such matters are subject to many uncertainties and their ultimate outcomes are not predictable with assurance. Consequently, management is unable to estimate a range of potential loss, if any, related to these matters. At this time, management has not concluded whether the final resolution of any of these matters will have a material adverse effect upon the financial statements.

#### **Principal Protected Product for Private Equity Investments**

The fund agreements for a private equity vehicle referred to as KKR’s principal protected product for private equity investments contain provisions that require the fund underlying the principal protected product for private equity investments (the “Master Fund”) to liquidate certain of its portfolio investments in order to satisfy liquidity requirements of the fund agreements, if the performance of the Master Fund is lower than certain benchmarks defined in the agreements. In an instance where the Master Fund is not in compliance with the defined liquidity requirements and has no remaining liquid portfolio investments, KKR has an obligation to purchase up to \$18.4 million of illiquid portfolio investments of the Master Fund at 95% of their current fair market value. Effective January 1, 2011, KKR’s obligation has been reduced to \$4.1 million. As of December 31, 2010, the fund does not have a liquidity shortfall and therefore no obligation exists.

#### **14. REGULATED ENTITIES**

KKR has a registered broker-dealer which is subject to the minimum net capital requirements of the Securities and Exchange Commission (“SEC”) and the Financial Industry Regulatory Authority (“FINRA”). Additionally, KKR has an entity based in London which is subject to the capital requirements of the U.K. Financial Services Authority (“FSA”), another entity based in Hong Kong which is subject to the capital requirements of the Hong Kong Securities and Futures Ordinance, and another entity based in Mumbai which is subject to capital requirements of the Reserve Bank of India (“RBI”). All of these broker dealer entities have continuously operated in excess of their respective regulatory capital requirements.

The regulatory capital requirements referred to above may restrict the Partnership’s ability to withdraw capital from its entities. At December 31, 2010, approximately \$116.6 million may be restricted as to the payment of cash dividends and advances to the Partnership.

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

<i>Three Months Ended,</i>	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
<b>Statement of Operations Data:</b>				
Fees	\$ 106,031	\$ 87,070	\$ 96,018	\$ 146,267
Less: Total Expenses	463,308	430,586	449,867	418,902
Total Investment Income (Loss)	2,763,936	1,224,959	1,724,527	3,465,686
Income (Loss) Before Taxes	2,406,659	881,443	1,370,678	3,193,051
Income Taxes	13,452	31,283	16,263	14,362
Net Income (Loss)	2,393,207	850,160	1,354,415	3,178,689
Less: Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities	1,987,130	676,816	1,293,373	2,586,697
Less: Net Income (Loss) Attributable to Noncontrolling Interests Attributable to KKR Holdings	292,241	143,437	52,186	411,413
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ 113,836	\$ 29,907	\$ 8,856	\$ 180,579
<b>Net Income (Loss) Attributable to KKR &amp; Co. L.P. Per Common Unit</b>				
Basic	\$ 0.57	\$ 0.15	\$ 0.04	\$ 0.86
Diluted	\$ 0.57	\$ 0.15	\$ 0.04	\$ 0.86
<b>Weighted Average Common Units Outstanding</b>				
Basic	204,902,226	204,902,226	204,902,226	209,383,219
Diluted	204,902,226	204,902,226	204,902,226	209,413,219

<i>Three Months Ended,</i>	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
<b>Statement of Operations Data:</b>				
Fees	\$ 39,070	\$ 51,482	\$ 110,863	\$ 129,856
Less: Total Expenses	104,758	97,722	154,597	838,633
Total Investment Income (Loss)	(715,345)	2,307,610	4,171,835	1,989,708
Income (Loss) Before Taxes	(781,033)	2,261,370	4,128,101	1,280,931
Income Taxes	1,531	159	4,115	31,193
Net Income (Loss)	(782,564)	2,261,211	4,123,986	1,249,738
Less: Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities	(727,981)	1,895,385	3,507,323	1,444,655
Less: Net Income (Loss) Attributable to Noncontrolling Interests Attributable to KKR Holdings	—	—	—	(116,696)
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ (54,583)	\$ 365,826	\$ 616,663	\$ (78,221)
<b>Net Income (Loss) Attributable to KKR &amp; Co. L.P. Per Common Unit</b>				
Basic				\$ (0.38)
Diluted				\$ (0.38)
<b>Weighted Average Common Units Outstanding</b>				
Basic				204,902,226
Diluted				204,902,226

16. SUBSEQUENT EVENTS

A distribution of \$0.29 per KKR & Co. L.P. common unit was declared on February 23, 2011 and will be paid on March 21, 2011 to KKR & Co. L.P. unitholders of record as of the close of business on March 7, 2011. KKR Holdings will receive its pro rata share of the distribution from the KKR Group Partnerships.

On March 1, 2011, the terms of the Corporate Credit Agreement were amended, which reduced the availability for borrowings under the facility from \$1.0 billion to \$700.0 million and extended the maturity, so that the facility now expires on March 1, 2016. In addition, the KKR Group Partnerships became co-borrowers of the facility, and KKR & Co. L.P. and the Issuer of the Senior Notes became guarantors of the Corporate Credit Agreement, together with certain general partners of KKR's private equity funds.

# Appendix 1

## RECONCILIATION OF GAAP COMMON UNITS OUTSTANDING TO ADJUSTED UNITS

<i>As of</i>	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
<b>GAAP Common Units Outstanding – Basic</b>	204,902,226	204,902,226	204,902,226	204,902,226	212,770,091
Unvested Common Units <sup>(1)</sup>	—	—	—	—	30,000
<b>GAAP Common Units Outstanding – Diluted</b>	204,902,226	204,902,226	204,902,226	204,902,226	212,800,091
KKR Holdings Units <sup>(2)</sup>	478,105,194	478,105,194	478,105,194	478,105,194	470,237,329
<b>Adjusted Units</b>	<b>683,007,420</b>	<b>683,007,420</b>	<b>683,007,420</b>	<b>683,007,420</b>	<b>683,037,420</b>

(1) Represents equity awards granted under the KKR & Co. L.P. 2010 Equity Incentive Plan. The issuance of common units of KKR & Co. L.P. pursuant to awards under its equity incentive plan dilutes KKR common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR business.

(2) Common units that may be issued by KKR & Co. L.P. upon exchange of units in KKR Holdings L.P. for KKR common units.

