KKR & Co. (Guernsey) L.P.

(Formerly known as KKR Private Equity Investors, L.P.)

2009 Annual Financial Report

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

TABLE OF CONTENTS

NAMING CONVENTIONS

We have prepared this report using a number of naming conventions, which you should consider when reading the information contained herein. Unless the context suggests otherwise, references to:

- **"we," "us," "our," "KKR Guernsey," and "our partnership"** are to KKR & Co. (Guernsey) L.P. (formerly known as KKR Private Equity Investors, L.P.), a Guernsey limited partnership, with Registration Number 603;
- **"KPE"** is to our partnership while it was named KKR Private Equity Investors, L.P. and prior to the effectiveness of the Combination Transaction;
- our **"Managing Partner"** is to KKR Guernsey GP Limited, a Guernsey limited company with Registration Number 44666, which serves as our general partner;
- the **"KPE Investment Partnership"** is to KKR PEI Investments, L.P., a Guernsey limited partnership with Registration Number 602, and, as applicable, its subsidiaries;
- **"KKR"** is to KKR & Co. L.P., a Delaware limited partnership, and its affiliates, including Kohlberg Kravis Roberts & Co. L.P., as reorganized pursuant to the Combination Transaction;
- **"Combination Transaction"** refers to the combination of the businesses of KKR and KPE pursuant to the Amended and Restated Purchase and Sale Agreement, dated as of July 19, 2009, by and among KKR, KPE and certain of their affiliates;
- **"Combined Business"** refers to the combined business of KKR and KPE effective as of October 1, 2009 pursuant to the Combination Transaction;
- **"Group Holdings"** is to KKR Group Holdings L.P., a Cayman limited partnership through which KKR Guernsey owns its interest in the Combined Business;
- **"KKR Group Partnerships"** are KKR Management Holdings L.P., a Delaware limited partnership, and KKR Fund Holdings L.P., a Cayman limited partnership, which together own the Combined Business;
- **"KKR Group Partnership Unit"** refers to a Class A partner interest in each of the KKR Group Partnerships;
- **"KKR Holdings"** is to KKR Holdings L.P., a Cayman limited partnership, which owns all of the outstanding KKR Group Partnership Units that KKR Guernsey does not own through Group Holdings;
- **"KKR Managing Partner"** is KKR Management LLC, a Delaware limited liability company, which serves as the general partner of KKR & Co. L.P.;
- **"Registration Statement"** is to the Registration Statement on Form S-1 filed by KKR & Co. L.P. (Registration No. 333-165414) with the U.S. Securities and Exchange Commission, as it may be amended from time to time.

ABOUT KKR GUERNSEY

KKR Guernsey is a Guernsey limited partnership representing a 30% economic interest in KKR's business on and after October 1, 2009. KKR Guernsey's general partner is governed by a board of directors, consisting of a majority of independent directors, and its sole asset is the limited partner interests of Group Holdings. As of December 31, 2009, KKR Guernsey's limited partner interests consist of one common unit that is held by the Managing Partner and 204,902,225 common units that are held by other limited partners. The common units are non-voting and are listed on Euronext Amsterdam by NYSE Euronext ("Euronext Amsterdam"), the regulated market of Euronext Amsterdam N.V.

See "Operating and Liquidity Overview," included elsewhere in this financial report for a discussion of KKR Guernsey's operating results for the years ended December 31, 2009 and December 31, 2008.

COMBINATION TRANSACTION

On October 1, 2009, KPE and KKR completed the Combination Transaction. KPE changed its name to KKR & Co. (Guernsey) L.P., and, effective October 2, 2009, the ticker symbol for KKR Guernsey's common units on Euronext Amsterdam changed from "KPE" to "KKR."

Under the terms of the Combination Transaction, KKR acquired all of the assets and all of the liabilities of KKR Guernsey, and in exchange, KKR Guernsey received limited partner interests in Group Holdings representing 30% of the outstanding equity in the Combined Business. The remaining 70% interest in the Combined Business is beneficially owned by KKR's principals through KKR Holdings. In connection with the Combination Transaction, the KKR Group Partnerships acquired all outstanding non-controlling interests in the KPE Investment Partnership, which became a wholly-owned subsidiary of the KKR Group Partnerships.

KKR expects to allocate approximately 40% of the carry it receives from its funds and co-investment vehicles to its carry pool, although this percentage may fluctuate over time. Allocations to the carry pool may not exceed 40% without the approval of a majority of the independent directors of the Managing Partner.

KKR Guernsey unitholders' holdings of KKR Guernsey units did not change as a result of the Combination Transaction. KKR Guernsey's units remain subject to the same restrictions on ownership and transfer that KKR Guernsey's units were subject to prior to the completion of the Combination Transaction.

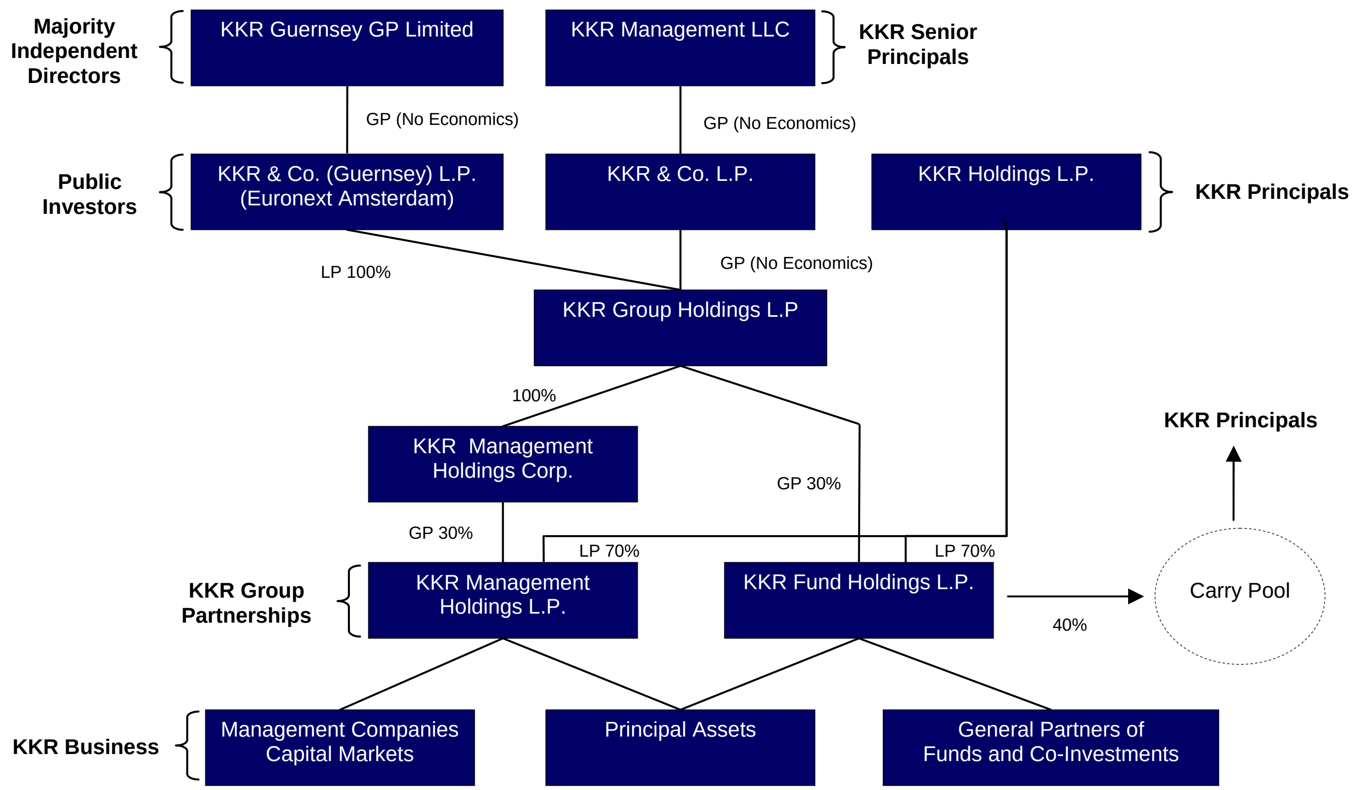
On February 24, 2010, KKR elected to seek a U.S. listing on the New York Stock Exchange. The election was made pursuant to the terms of the investment agreement in effect between KKR and KKR Guernsey, which obligates each party to use reasonable efforts to implement the listing. In connection with such listing, (i) KKR Guernsey will contribute its assets to KKR in return for KKR's NYSE-listed common units, (ii) KKR Guernsey will make an in-kind distribution of KKR's common units to KKR Guernsey's unitholders and will dissolve, and (iii) each KKR Guernsey unit will cease to be traded on Euronext Amsterdam and will be cancelled. KKR's U.S. listing is subject to the satisfaction or waiver of a number of conditions. For additional information, please refer to the Registration Statement.

About KKR

Founded in 1976 and led by Henry Kravis and George Roberts, KKR is a leading global alternative asset manager with $52.2 billion in assets under management as of December 31, 2009. With over 600 people and 14 offices around the world, KKR manages assets through a variety of investment funds and accounts covering multiple asset classes. KKR seeks to create value by bringing operational expertise to its portfolio companies and through active oversight and monitoring of its investments. KKR complements its investment expertise and strengthens interactions with investors through its client relationships and capital markets platforms. For additional information about KKR, please refer to the Registration Statement.

Organizational Structure

The following diagram illustrates the current ownership and organizational structure of KKR Guernsey and KKR.



COMMON UNITS

Common Units on the Euronext Amsterdam

As of December 31, 2009, KKR Guernsey had 204,902,226 common units outstanding or, as a result of the Combination Transaction, 683,007,420 common units on a fully diluted basis giving effect to common units that may be issued by KKR Guernsey in exchange for additional equity in the Combined Business pursuant to an exchange agreement, which provides, subject to the terms and conditions of the exchange agreement, for the exchange of KKR Group Partnership Units held by KKR Holdings or its transferees for KKR Guernsey common units.

KKR Guernsey's common units represent limited partner interests in its partnership and are non-voting. KKR Guernsey has also established a restricted depositary facility in the U.S. to allow qualifying investors to acquire and hold our common units in the form of restricted depositary units ("RDUs"). Each RDU represents the right to receive one common unit that has been deposited with The Bank of New York, as the depositary bank, and any other securities, cash or property that the depositary bank receives in respect of the common unit.

KKR Guernsey is subject to the supervision of the Guernsey Financial Services Commission and market conduct supervision by the Authority for the Financial Markets in the Netherlands.

KKR Guernsey's market price per common unit (under the Euronext Amsterdam trading symbol "KKR") was as follows:

		Market Price per Common Unit (1)
For the Year Ended December 31, 2009:		
As of December 31, 2009	$	8.50
As of September 30, 2009		9.35
As of June 30, 2009		6.00
As of March 31, 2009		2.93
For the Year Ended December 31, 2008:		
As of December 31, 2008	$	3.50
As of September 30, 2008		9.40
As of June 30, 2008		12.75
As of March 31, 2008		12.35

(1) The market price was the closing price quoted on Euronext Amsterdam on the last trading day for the quarterly periods ended on the dates set forth in the table.

Effective October 2, 2009, the ticker symbol for KKR Guernsey's common units on the Euronext Amsterdam changed from "KPE" to "KKR." As of March 10, 2010, the closing market price per common unit was $11.01.

Ownership and Transfer Restrictions

Our common units and the RDUs are subject to a number of ownership and transfer restrictions. For example, a U.S. resident, U.S. entity or other U.S. person may not invest in KKR Guernsey's common units or RDUs, unless the investor is at all times a "qualified purchaser" as defined in applicable U.S. securities laws. A qualified purchaser generally refers to individuals with at least $5.0 million in net investments and entities with at least $25.0 million in net investments. A non-U.S. investor is not required to be a qualified purchaser. In addition, KKR Guernsey's common units and RDUs may not be held by or invested in 401(k) plans, individual retirement accounts (IRAs), Keogh plans and other benefit plans subject to the U.S. Employee Retirement Income Security Act of 1974 ("ERISA") or similar U.S. or non-U.S. laws that impose special fiduciary responsibilities or prohibited transaction provisions like ERISA. Violations of the ownership and transfer restrictions applicable to KKR Guernsey's common units and RDUs may result in severe consequences, including the forfeiture of the unitholder's investment. For additional information, please refer to the full text of KKR Guernsey's limited partnership agreement and the "Frequently Asked Questions Regarding Ownership and Transferability of Our Common Units and RDUs," both of which are available at the Investor Relations page at www.kkr.com.

GOVERNANCE

KKR Guernsey unitholders hold limited partner interests in KKR Guernsey, which is governed by KKR Guernsey's limited partnership agreement. KKR Guernsey's limited partnership agreement provides for the management of its business and affairs by the Managing Partner as its general partner, which is owned by individuals who are affiliated with KKR, and which has a board of directors consisting of a majority of independent directors (determined under the standards of the New York Stock Exchange). As limited partners, KKR Guernsey unitholders may not take part in the management or control of the business and affairs of KKR Guernsey and do not have any right or authority to act for or to bind KKR Guernsey or to take part or interfere in the conduct or management of KKR Guernsey. KKR Guernsey unitholders are not entitled to vote on matters relating to KKR Guernsey.

As of December 31, 2009, KKR Guernsey's only asset is the limited partner interests in Group Holdings that represent a 30% economic interest in the Combined Business. The KKR Managing Partner is the general partner of KKR & Co. L.P., which is the parent company of the general partners and sole shareholders of the entities that manage the business and affairs of Group Holdings and the KKR Group Partnerships. KKR Guernsey does not hold securities of the KKR Managing Partner. The KKR Managing Partner has a board of directors, consisting of KKR's founders Henry Kravis and George Roberts, who also serve as KKR's Co-Chief Executive Officers.

The audit committee of the general partner of KKR Guernsey has an oversight function for the financial statements of KKR, and under the terms of an investment agreement entered into between KKR & Co. L.P. and KKR Guernsey in connection with the Combination Transaction, which provides for a variety of rights and obligations of KKR and KKR Guernsey, the independent directors of the general partner of KKR Guernsey have certain consent and information rights with respect to KKR's business, including certain related party transactions. In particular, the independent directors of KKR Guernsey's general partner have the right to cause KKR & Co. L.P. to enforce its rights, directly or indirectly, under the exchange agreement, tax receivable agreement, limited partnership agreements of the KKR Group Partnerships, and certain other specified agreements against KKR Holdings and certain of its subsidiaries and designees, a general partner or limited partner of KKR Holdings, or a person who holds a partnership or equity interest in the foregoing entities. In addition, the consent of a majority of the independent directors of KKR Guernsey's general partner is required to approve certain related party transactions that involve an aggregate amount in excess of $20 million or would reduce the percentage of KKR Guernsey's direct or indirect equity interest in the KKR Group Partnerships. Moreover, KKR may not allocate more than 40% of the carried interest earned in relation to its funds to its carry pool without the approval of a majority of the independent directors of the Managing Partner.

DISTRIBUTION POLICY

KKR Guernsey intends to distribute all or substantially all of the cash distributions it may receive from Group Holdings.

KKR intends to make quarterly cash distributions to holders of its interests in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of its asset management business each year in excess of amounts determined by the KKR Managing Partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and its investment funds and to comply with applicable law and any of its debt instruments or other agreements. For the purposes of its distribution policy, KKR's cash earnings from its asset management business is expected to consist of (i) its fee related earnings net of taxes and certain other adjustments and (ii) its carry distributions received from its investment funds and vehicles which have not been allocated as part of its carry pool. KKR does not intend to distribute gains on principal investments, other than potentially certain tax distributions, as discussed below.

KKR's distribution policy reflects its belief that distributing substantially all of the cash earnings of its asset management business will provide transparency for holders of its common units and impose on KKR an investment discipline with respect to the businesses and strategies that it pursues.

Because KKR Guernsey makes its investment in KKR through a holding company structure and the applicable holding companies do not own any material cash-generating assets other than their direct and indirect holdings in KKR Group Partnership Units, distributions are expected to be funded in the following manner:

- First, the KKR Group Partnerships will make distributions to holders of KKR Group Partnership Units, including the holding companies through which KKR Guernsey invests, in proportion to their percentage interests in the KKR Group Partnerships;

- Second, the holding companies through which KKR Guernsey invests will distribute to KKR Guernsey the amount of any distributions that they receive from the KKR Group Partnerships, after deducting any applicable taxes, and

- Third, KKR Guernsey will distribute to holders of KKR Guernsey units the amount of any distributions that KKR Guernsey receives from its holding companies through which it invests.

The partnership agreements of the KKR Group Partnerships provide for cash distributions, which are referred to as tax distributions, to the partners of such partnerships if the KKR Managing Partner determines that the taxable income of the relevant partnership will give rise to taxable income for its partners. KKR expects that the KKR Group Partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such tax liabilities. Generally, these tax distributions are expected to be computed based on an estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the non-deductibility of certain expenses and the character of KKR's income). A portion of any such tax distributions, net of amounts used by Group Holdings or its subsidiaries to pay their tax liability, is expected to be distributed to KKR Guernsey, for further distribution to KKR Guernsey's unitholders, subject to applicable law. Such amounts are generally expected to be sufficient to permit U.S. holders of KKR Group Partnership Units to fund their estimated U.S. tax obligations (including any federal, state and local income taxes) with respect to their distributive shares of net income or gain, after taking into account any withholding tax imposed on Group Holdings or its subsidiaries. There can be no assurance that, for any particular KKR Guernsey unitholder, such distributions will be sufficient to pay the unitholder's actual U.S. or non-U.S. tax liability.

The actual amount and timing of distributions are subject to the discretion of the board of directors of the KKR Managing Partner and the Managing Partner, and there can be no assurance that distributions will be made as intended or at all. In particular, the amount and timing of distributions will depend upon a number of factors, including, among others, KKR's available cash and current and anticipated cash needs, including funding of investment commitments and debt service and repayment obligations; general economic and business conditions; KKR's strategic plans and prospects; KKR's results of operations and financial condition; KKR's capital requirements; legal, contractual and regulatory restrictions on the payment of distributions by KKR or its subsidiaries, including restrictions contained in its debt agreements, and such other factors as the board of directors of the KKR Managing Partner considers relevant.

OPERATING AND LIQUIDITY OVERVIEW

The financial information presented in this operating and liquidity overview for KKR Guernsey are as of and for the year ended December 31, 2009 and should be read in conjunction with the financial statements of KKR Guernsey included elsewhere in this financial report. The financial information for KKR Guernsey reflects historical financial information for dates or periods completed prior to the consummation of the Combination Transaction and does not include any pro forma adjustments relating to the Combination Transaction. The following does not reflect the results of KKR for periods prior to October 1, 2009 and is not representative of KKR results going forward.

Operating Results of KKR Guernsey

The following table sets forth KKR Guernsey's operating results for the years ended December 31, 2009 and December 31, 2008, with amounts in thousands:

	Year Ended	
	December 31, 2009	December 31, 2008
Loss from equity method investment – KKR Group Holdings L.P.	$ (78,221)	$ —
Net gain (loss) from investing and other activities:		
Net investment income (loss) allocated from KKR PEI Investments, L.P.:		
Investment income	37,229	45,277
Expenses	56,739	109,934
	(19,510)	(64,657)
Investment income—interest income	16	88
Expenses—General and administrative expenses	19,012	21,605
Net investment loss	(38,506)	(86,174)
Realized and unrealized gain (loss) from investments and foreign currency allocated KKR PEI Investments, L.P.:		
Net realized loss	(78,401)	(104,356)
Net change in unrealized appreciation (depreciation)	978,160	(2,177,581)
Net gain (loss) on investments and foreign currency transactions	899,759	(2,281,937)
Net income (loss)	$ 783,032	$ (2,368,111)

Operating Results of KKR Guernsey for the Years Ended December 31, 2009 and December 31, 2008

Loss from Equity Method Investment in Group Holdings

Effective October 1, 2009, in accordance with the terms of the Combination Transaction, KKR Guernsey owns an investment in Group Holdings that is accounted for using the equity method of accounting. The loss from the investment in Group Holdings for both the three months and year ended December 31, 2009 was $78.2 million.

As of December 31, 2009, KKR Guernsey's holdings in limited partner interests of Group Holdings were $1,013.8 million. Presented below is the summary statement of financial condition as of December 31, 2009 and summary results of operations for the period from October 1, 2009 (the date the Combination Transaction was consummated) through December 31, 2009 for Group Holdings, with amounts in thousands.

		December 31, 2009
Financial condition:		
Total assets	$	30,221,111
Total liabilities		2,859,630
Equity	$	27,361,481
Noncontrolling interests		26,347,632
KKR Group Holdings L.P partners' capital	$	1,013,849

The total assets of Group Holdings include investments of $19,417.0 million measured at Level III in the fair value hierarchy.

		October 1, 2009 through December 31, 2009
Results of operations:		
Revenues	$	129,856
Expenses		(838,633)
Investment income		1,989,708
Income before taxes		1,280,931
Income taxes		31,193
Net income		1,249,738
Less: Noncontrolling interests		(1,327,959)
Net loss attributable to KKR Group Holdings, L.P.	$	(78,221)

KKR Guernsey recorded a loss of $78.2 million related to its investment in Group Holdings for the period from October 1, 2009 through December 31, 2009 within the loss from equity method investment line item included in the statements of operations. The results of operations for Group Holdings for the period from October 1, 2009 through December 31, 2009 were impacted by the recognition, immediately following the completion of the Combination Transaction, of approximately $449.8 million relating to equity-based payments and profit sharing expense.

Net Gain (Loss) from Investing and Other Activities

Effective October 1, 2009, KKR Guernsey contributed the limited partner interests it held in the KPE Investment Partnership to Group Holdings in accordance with the terms of the Combination Transaction. As a result, the allocated results of the KPE Investment Partnership are only reflected for the nine months ended September 30, 2009 as compared to the year ended December 31, 2008. In addition, KKR acquired all assets and liabilities, and has assumed all future liabilities, of KKR Guernsey as of October 1, 2009. Therefore KKR Guernsey did not record any investment income or general and administrative expenses during the quarter ended December 31, 2009.

Net Investment Income (Loss) Allocated from the KPE Investment Partnership

Net investment income (loss) allocated from the KPE Investment Partnership was generally comprised of our portion of the KPE Investment Partnership's income and expenses prior to October 1, 2009, which included interest and dividend income, management fees, interest expense, dividend expense and general and administrative expenses. The net investment loss allocated from the KPE Investment Partnership was $19.5 million and $64.7 million during the years ended December 31, 2009 and December 31, 2008, respectively.

Investment Income

During the years ended December 31, 2009 and December 31, 2008, investment income of less than $0.1 million represented interest income from cash management activities.

General and Administrative Expenses

General and administrative expenses were $19.0 million and $21.6 million, during the years ended December 31, 2009 and December 31, 2008, respectively. General and administrative expenses included professional fees related to the Combination Transaction, administrative costs, fees for other professional services not related to the Combination Transaction and expenses of our Managing Partner's board of directors.

Net Gain (Loss) on Investments and Foreign Currency Transactions Allocated from the KPE Investment Partnership

The net realized gain (loss) and net change in unrealized appreciation (depreciation) were based on KKR Guernsey's allocated portion of the KPE Investment Partnership's net gain (loss) on investments and foreign currency transactions prior to October 1, 2009.

During the years ended December 31, 2009 and December 31, 2008, we recorded a net realized loss of $78.4 million and $104.4 million, respectively.

Additionally, we recorded a net change in unrealized appreciation of $978.2 million compared to net unrealized depreciation of $2,177.6 million during the years ended December 31, 2009 and December 31, 2008, respectively.

Liquidity and Capital Resources

In connection with the Combination Transaction, KKR acquired all of the assets and liabilities, and has assumed all the future obligations, of KKR Guernsey. KKR Guernsey does not have any material operations other than its holdings of limited partner interests in Group Holdings. KKR Guernsey expects to receive cash from Group Holdings in an amount sufficient to make any future distribution payments or to pay other obligations.

Our Cash Flows for the Years Ended December 31, 2009 and December 31, 2008

As of December 31, 2009 and December 31, 2008, KKR Guernsey's cash balance was nil and $2.1 million, respectively. During the year ended December 31, 2009, cash provided by operating activities was $468.2 million. KKR Guernsey received a $474.1 million distribution from the KPE Investment Partnership during the nine months ended September 30, 2009, which was partially offset by working capital requirements. On October 1, 2009, KKR Guernsey contributed cash of $470.3 million to Group Holdings, which was reflected as an investing activity in the statement of cash flows.

During the year ended December 31, 2008, cash used in operating activities was $2.8 million. KKR Guernsey received distributions from the KPE Investment Partnership totaling $15.0 million, which were offset by working capital requirements. Cash provided by financing activities during the year ended December 31, 2008 was $4.4 million as a result of a contribution from affiliates of KKR in exchange for 352,225 newly issued common units pursuant to an investment agreement that was terminated in connection with the Combination Transaction.

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NOTICE TO INVESTORS

KKR Guernsey may invest, indirectly through KKR or its affiliated investment vehicles (the "Funds"), in commodity futures and/or options thereon. In reliance on the exemption (the "Exemption") provided by Rule 4.13(a)(3) promulgated under the U.S. Commodity Exchange Act, as amended, the Managing Partner has not and will not register with the U.S. Commodity Futures Trading Commission (the "CFTC") as a commodity pool operator in connection with such investments. Therefore, unlike a registered commodity pool operator, the Managing Partner is not required to provide investors in KKR Guernsey with a CFTC compliant disclosure document or certified annual reports that satisfy the requirements of CFTC rules applicable to registered commodity pool operators. The Exemption requires, among other things, that each unitholder of KKR Guernsey be a "non-United States Person" under CFTC rules, satisfy certain sophistication criteria, or otherwise be an eligible investor as specified in Rule 4.13(a)(3), and imposes limitations on the percent of the KKR Guernsey portfolio that may be directly or indirectly invested in commodity futures and/or options thereon. The Exemption also requires that the common units of KKR Guernsey be exempt from registration under the U.S. Securities Act of 1933, as amended, and be offered and sold without marketing to the public in the United States.

Decisions concerning securities transactions and allocations of brokerage commissions on behalf of the Funds are made by KKR, subject to the supervision of the applicable general partner of a Fund (the "Fund Partners"). In selecting brokers and dealers to effect these transactions, KKR and the Fund Partners may consider factors including price and the brokers' and dealers' capabilities, facilities, reliability and financial responsibility. They may also consider research or other products or services provided by brokers and dealers to KKR and the Fund Partners. While these generally benefit clients of KKR, the Fund Partners or their affiliates, they may not directly benefit the Funds. If KKR or the Fund Partners determine in good faith that the transaction costs imposed by a broker or dealer are reasonable in relation to the value of these products or services, KKR or the Fund Partners may incur transaction costs in an amount greater than the amount that might be incurred if another firm were used (a "soft dollar commission"). Accordingly, the Funds may be deemed to be paying for costs of KKR, the Fund Partners or their affiliates with soft dollar commissions, which may be viewed as an additional benefit to such parties. KKR and the Fund Partners expect that receipt of such products or services will be in accordance with Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. KKR and the Fund Partners have not and do not currently expect to make any commitment to allocate portfolio transactions upon a prescribed basis.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND CERTAIN RISKS

This report contains certain forward-looking statements and an investment in KKR Guernsey involves certain risks. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will" and "would" or the negative of those terms or other comparable terminology. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, results of operations, liquidity, investments, net asset value and prospects may vary materially from those expressed in our forward-looking statements. Some of the factors that could cause actual results to vary from those expressed in our forward-looking statements and other risks and uncertainties to which KKR Guernsey is subject include, but are not limited to:

- our investment objective changed from predominantly making investments in multiple KKR private equity funds and KKR portfolio companies to a single investment in KKR itself, and an investment in KKR is subject to a number of risks discussed under "Risk Factors" in the Registration Statement. These risks include, but are not limited to, the following:
    - KKR's business is materially affected by conditions in the financial markets and economic conditions, and recent disruptions in the global financial markets, including considerable declines in the valuations of debt and equity securities, have negatively impacted KKR's financial performance, increased the cost of financing leveraged buyout transactions and limited the availability of that financing;
    - KKR is dependent on its principals, including its founders and other key personnel;
    - KKR's net income and cash flow is volatile;

- any underperformance of KKR's investments could adversely impact KKR's ability to maintain or grow its AUM;
- KKR's business is subject to extensive regulation and scrutiny, which may make KKR's business more difficult to operate;
- the valuation methodologies for certain assets in KKR's funds are subject to significant management judgment;
- KKR's organizational structure may give rise to the potential for conflicts of interest among KKR and its affiliates;
- many of KKR's funds focus on illiquid investments;
- KKR may be subject to substantial litigation and as a result incur significant liabilities and suffer damage to KKR's professional reputation;
- KKR's emphasis on private equity investments, which are among the largest in the industry, involve particular risks and uncertainties; and
- KKR's investment in companies that are based outside of the United States present potentially greater risks than similar investments in the United States;

- factors relating to our holdings of limited partner interests in Group Holdings, including, but not limited to, the limited ability of KKR Guernsey's unitholders to influence decisions regarding KKR's business and potential conflicts of interest with KKR that may result from our ownership structure;
- the volatility of the capital markets and the market price of our common units and RDUs;
- KKR Guernsey unitholders may be required to make tax payments in connection with their ownership of KKR Guernsey units in excess of the cash distribution they receive in any specific year ;
- In addition, legislation has been introduced in the U.S. Congress that would, if enacted, preclude KKR Guernsey from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules. In 2007, legislation was introduced in the U.S. Congress that would tax as corporations publicly traded partnerships that directly or indirectly derive income from investment advisor or asset management services. In 2008, the U.S. House of Representatives passed a bill that would generally (i) treat carried interest as non-qualifying income under the tax rules applicable to publicly traded partnerships, which could preclude us from qualifying as a partnership for U.S. federal income tax purposes, and (ii) tax carried interest as ordinary income for U.S. federal income taxes, rather than in accordance with the character of income derived by the underlying fund. In December 2009, the U.S. House of Representatives passed substantially similar legislation. Such legislation would tax carried interest as ordinary income starting this taxable year. In addition, the Obama administration proposed in its published revenue proposals for both 2010 and 2011 that the current law regarding the treatment of carried interest be changed to subject such income to ordinary income tax. Certain versions of the proposed legislation (including the legislation passed in December 2009) contain a transition rule that may delay the applicability of certain aspects of the legislation for a partnership that is a publicly traded partnership on the date of enactment of the legislation. If the changes suggested by the administration or any of the proposed legislation or similar legislation were adopted, income attributable to carried interest may not meet the qualifying income requirements under the publicly traded partnership rules, and, therefore, KKR Guernsey could either be precluded from qualifying as a partnership for U.S. federal income tax purpose or be required to hold interests in entities earning such income through a taxable U.S. corporation. If KKR Guernsey were taxed as a corporation, its effective tax rate could increase significantly. Therefore, if any such legislation or similar legislation were to be enacted and apply to us, it could materially increase our tax liability, which could well result in a reduction in the market price of our common units.
- the risks, uncertainties and other factors described elsewhere in this report.

The foregoing is not a comprehensive list of the risks and uncertainties to which we are subject. Except as required by applicable law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events described by our forward-looking statements might not occur. We qualify any and all of our forward-looking statements by these cautionary factors. Please keep this cautionary note in mind as you read this report.

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DIRECTORS, ADVISORS AND CONTACT INFORMATION

Board of Directors of the Managing Partner:

Henry R. Kravis (Chairman, Co-founder of KKR)
George R. Roberts (Chairman, Co-founder of KKR)
Christopher M. W. Hill*
Remmert J. Laan*
Dieter Rampl*

*Independent directors

The address of each of these individuals is:

c/o KKR Guernsey GP Limited
Registration Number 44666
Trafalgar Court, Les Banques
St. Peter Port, Guernsey GY1 3QL
Channel Islands

Registered Office and General Inquiries:

KKR & Co. (Guernsey) L.P.
P.O. Box 255
Trafalgar Court, Les Banques
St. Peter Port, Guernsey GY1 3QL
Channel Islands
Telephone: +44.1481.745.001
Facsimile: +44.1481.745.074

www.kkr.com/investor_relations

Guernsey Administrator:

Northern Trust International Fund Administration Services (Guernsey) Limited
P.O. Box 255
Trafalgar Court, Les Banques
St. Peter Port, Guernsey GY1 3QL
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Telephone: +44.1481.745.001
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Independent Auditors:

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Regency Court
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St. Peter Port, Guernsey GY1 3HW
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101 Barclay Street, 22 West
New York, New York 10286
United States
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Telephone: +1.212.815.4502 or +1.212.815.2715
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STATEMENT OF RESPONSIBILITY

The portions of this financial report that relate to KKR Guernsey, including the financial statements and other financial information of KKR Guernsey contained herein, are the responsibility of and have been approved by the Managing Partner. The Managing Partner is responsible for preparing such portions of this financial report to show the state of affairs of KKR Guernsey as of December 31, 2009 and of the profit or loss for the year ended December 31, 2009, as well as to prepare such financial statements in accordance with applicable Dutch and Guernsey laws and U.S. GAAP.

In preparing the financial report, the Managing Partner is required to (i) select suitable accounting policies and apply them consistently; (ii) make judgments and estimates that are reasonable and prudent; (iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the notes to the financial statements; and (iv) prepare the financial statements on a going-concern basis unless it is inappropriate to presume that the partnership will continue operations.

The board of directors of the Managing Partner confirms, to the best of its knowledge, that (i) the financial statements of KKR Guernsey contained in the Annual Financial Report have been prepared in accordance with U.S. GAAP and (ii) the annual financial report provides a true and fair view of the state of affairs of KKR Guernsey as of December 31, 2009 and its profits or losses for the year ended December 31, 2009.

* * * *

FINANCIAL STATEMENTS OF KKR & CO. (GUERNSEY) L.P.

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Partners of KKR & Co. (Guernsey) L.P.:

We have audited the financial statements of KKR & Co. (Guernsey) L.P. ("KKR Guernsey") for the year ended December 31, 2009 which comprise the Statement of Financial Condition, the Statement of Operations, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 11. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to KKR Guernsey's partners, as a body, in accordance with section 18 of The Limited Partnerships (Guernsey) Law, 1995. Our audit work has been undertaken so that we might state to the partners those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than KKR Guernsey and KKR Guernsey's partners as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Managing Partner and the Auditors

As described in the Statements of Responsibility, the Managing Partner is responsible for preparing the financial statements in accordance with applicable Guernsey law, accounting principles generally accepted in the United States of America and the Dutch Financial Supervision Act insofar applicable.

Our responsibility is to audit the financial statements in accordance with relevant Guernsey legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with accounting principles generally accepted in the United States of America and have been properly prepared in accordance with The Limited Partnerships (Guernsey) Law, 1995, KKR Guernsey's Limited Partnership Agreement and the Dutch Financial Supervision Act insofar applicable.

In addition we report to you if, in our opinion, KKR Guernsey has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Financial Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Financial Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Managing Partner in the preparation of the financial statements, and of whether the accounting policies are appropriate to KKR Guernsey's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with accounting principles generally accepted in the United States of America, of the state of KKR Guernsey's affairs as at December 31, 2009 and of its return for the year ended December 31, 2009;
- the financial statements have been properly prepared in accordance with The Limited Partnerships (Guernsey) Law, 1995 and KKR Guernsey's Limited Partnership Agreement; and

- the financial statements have been properly prepared in accordance with the Dutch Financial Supervision Act insofar applicable.

Emphasis of matter – Value of investment in KKR Group Holdings, L.P.

Without qualifying our audit opinion, we draw attention to the disclosures made in notes 2 and 3 concerning the valuation of investments held by KKR Guernsey's sole investment, KKR Group Holdings, L.P. KKR Group Holdings, L.P. hold investments valued at $19.4 billion (approximately 64% of KKR Group Holdings, L.P.'s total assets) as of December 31, 2009, whose fair values have been estimated by KKR management in the absence of readily determinable values. However, because of the inherent uncertainty of the valuation, the estimated value of these investments may differ materially from the value that would have been realised had a disposal of these investments been made between a willing buyer and seller.

Deloitte LLP

Chartered Accountants

Guernsey

March 10, 2010

KKR & CO. (GUERNSEY) L.P.

STATEMENTS OF FINANCIAL CONDITION
(Amounts in thousands, except units)

	December 31, 2009	December 31, 2008
ASSETS:		
Investment in equity method investee – KKR Group Holdings L.P.	$ 1,013,849	$ —
Investments in limited partner interests, at fair value – KKR PEI Investments, L.P.	—	2,622,970
Cash and cash equivalents	—	2,095
Other assets	—	171
Total assets	$ 1,013,849	$ 2,625,236
LIABILITIES AND EQUITY:		
LIABILITIES:		
Accrued liabilities	$ —	$ 4,927
Due to affiliate	—	1,640
Total liabilities	—	6,567
COMMITMENTS AND CONTINGENCIES	—	—
EQUITY:		
Partners' capital, net (common units outstanding of 204,902,226 as of December 31, 2009 and 2008)	1,012,656	2,618,669
Accumulated other comprehensive income	1,193	—
Total equity	1,013,849	2,618,669
Total liabilities and equity	$ 1,013,849	$ 2,625,236

See accompanying notes to the financial statements.

KKR & CO. (GUERNSEY) L.P.

STATEMENTS OF OPERATIONS
(Amounts in thousands)

	Year Ended December 31, 2009	Year Ended December 31, 2008
Loss from equity method investment — KKR Group Holdings L.P.	$ (78,221)	$ —
Net gain (loss) from investing and other activities:		
Net investment income (loss) allocated from KKR PEI Investments, L.P.:		
Investment income	37,229	45,277
Expenses	56,739	109,934
	(19,510)	(64,657)
Investment income—interest income	16	88
Expenses—General and administrative expenses	19,012	21,605
Net investment loss	(38,506)	(86,174)
Realized and unrealized gain (loss) from investments and foreign currency allocated from KKR PEI Investments, L.P.:		
Net realized loss	(78,401)	(104,356)
Net change in unrealized appreciation (depreciation)	978,160	(2,177,581)
Net gain (loss) on investments and foreign currency transactions	899,759	(2,281,937)
Net income (loss)	$ 783,032	$ (2,368,111)

See accompanying notes to the financial statements.

KKR & CO. (GUERNSEY) L.P.

STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands, except common units)

	Equity	Accumulated Other Comprehensive Income	Comprehensive Income	Total Equity
BALANCE AS OF DECEMBER 31, 2007	$ 4,982,373	$ –		$ 4,982,373
Net loss from operations for the year ended December 31, 2008:				
Net investment loss	(86,174)	–		(86,174)
Net loss on investments and foreign currency transactions	(2,281,937)	–		(2,281,937)
Net loss	(2,368,111)	–		(2,368,111)
Partners' capital contributions (issued 352,225 common units).	4,407	–		4,407
BALANCE AS OF DECEMBER 31, 2008	2,618,669	–		2,618,669
Net income (loss) from operations for the nine months ended September 30, 2009 :				
Net investment loss	(38,506)	–		(38,506)
Net gain on investments and foreign currency transactions	899,759	–		899,759
Net income	861,253	–		861,253
BALANCE AS OF SEPTEMBER 30, 2009	3,479,922	–		3,479,922
Effect of Combination	(2,389,117)	1,088		(2,388,029)
BALANCE AS OF OCTOBER 1, 2009	1,090,805	1,088		1,091,893
Net loss from operations for the three months ended December 31, 2009 :				
Loss from equity method investment - KKR Group Holdings L.P. for the three months ended December 31, 2009:				
Net loss	(78,221)	–	$ (78,221)	(78,221)
Other comprehensive income - Currency translation adjustment	–	105	105	105
Total comprehensive loss			$ (78,116)	
Partners' capital contribution	72	–		72
BALANCE AS OF DECEMBER 31, 2009	$ 1,012,656	$ 1,193		$ 1,013,849

See accompanying notes to the financial statements.

KKR & CO. (GUERNSEY) L.P.

STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year Ended December 31, 2009	Year Ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 783,032	$ (2,368,111)
Adjustments to reconcile net income (loss) to cash and cash equivalents provided by (used in) operating activities:		
Loss from equity method investment – KKR Group Holdings L.P.	78,221	—
Net investment loss allocated from KKR PEI Investments, L.P.	19,510	64,657
Net loss (gain) on investments and foreign currency transactions allocated from KKR PEI Investments, L.P.	(899,759)	2,281,937
Share-based compensation expense	79	49
Changes in operating assets and liabilities:		
Distribution received from KKR PEI Investments, L.P.	474,148	14,969
Increase in other assets	(167)	(30)
Increase in accrued liabilities	14,908	3,055
Increase (decrease) in due to affiliate	(1,804)	710
Net cash flows provided by (used in) operating activities	468,168	(2,764)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Transfer of cash as a result of common control transaction	(470,263)	—
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Partners' capital contributions	—	4,407
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,095)	1,643
CASH AND CASH EQUIVALENTS—Beginning of period	2,095	452
CASH AND CASH EQUIVALENTS—End of period	$ —	$ 2,095
Supplemental Disclosure of Non-Cash Investing Activities:		
Transfer on common control transaction	$ 3,009,659	$ —

See accompanying notes to the financial statements.

KKR & CO. (GUERNSEY) L.P.

NOTES TO THE FINANCIAL STATEMENTS

1. BUSINESS

KKR & Co. (Guernsey) L.P. ("KKR Guernsey"), formerly known as KKR Private Equity Investors, L.P. ("KPE"), is a Guernsey limited partnership comprised of (i) KKR Guernsey GP Limited (the "Managing Partner"), which holds 100% of the general partner interests in KKR Guernsey, and (ii) the holders of limited partner interests in KKR Guernsey. As of December 31, 2009 and December 31, 2008, KKR Guernsey's limited partner interests consist of one common unit that is held by the Managing Partner and 204,902,225 common units that are held by other limited partners. The common units are non-voting and are listed on Euronext Amsterdam by NYSE Euronext ("Euronext Amsterdam"), the regulated market of Euronext Amsterdam N.V. As of October 1, 2009, KPE and KKR & Co. L.P. (together with its applicable affiliates, "KKR") completed the previously announced transaction to combine the businesses ("Combination Transaction") of KPE and KKR. KPE changed its name to KKR & Co. (Guernsey) L.P. and, effective October 2, 2009, the ticker symbol for KKR Guernsey's common units on Euronext Amsterdam changed from "KPE" to "KKR."

Under the terms of the Combination Transaction, KKR acquired all of the assets and all of the liabilities of KKR Guernsey and combined them with its asset management business (the "Combined Business"). In exchange, KKR Guernsey received 100% of the limited partner interests in KKR Group Holdings L.P. ("Group Holdings"), a Cayman limited partnership, which holds a 30% interest in the outstanding equity in the Combined Business. The remaining 70% interest in the Combined Business is beneficially owned through KKR Holdings L.P. ("KKR Holdings") by KKR's principals. In connection with the Combination Transaction, KKR Management Holdings L.P., a Delaware limited partnership, and KKR Fund Holdings L.P., a Cayman limited partnership (collectively the "KKR Group Partnerships"), which together own the Combined Business, acquired all outstanding non-controlling interests in KKR PEI Investments, L.P. (the "KPE Investment Partnership"). The KPE Investment Partnership became a wholly-owned subsidiary of the KKR Group Partnerships upon completion of the Combination Transaction.

In addition, the KKR Group Partnerships acquired in the Combination Transaction KKR's fee-generating management companies, KKR's capital markets companies, and the general partners of KKR's more recent private equity funds and certain other entities, in each case except for certain minority or economic interests owned by third parties.

KKR expects to allocate approximately 40% of the carry it receives from its funds and co-investment vehicles to its carry pool, although this percentage may fluctuate over time. Allocations to the carry pool may not exceed 40% without the approval of a majority of the independent directors of the Managing Partner.

KKR Guernsey unitholders' holdings of KKR Guernsey units did not change as a result of the Combination Transaction. The Combination Transaction did not involve the payment of any cash consideration or involve an offering of any newly issued securities to the public, and KKR executives did not sell any interests in KKR or the Combined Business. KKR Guernsey's units remain subject to the same restrictions on ownership and transfer that KKR Guernsey's units were subject to prior to the completion of this Combination Transaction.

In addition to entering into the investment agreement, and among other actions taken by KKR Guernsey and KKR in connection with the Combination Transaction, KKR Guernsey entered into an exchange agreement and tax receivables agreement, which provide for certain obligations of KKR Guernsey to issue common units in exchange for certain equity interests in KKR, certain payments by KKR Guernsey's intermediate holding company based on certain tax benefits, if any, arising from such exchanges, and other matters. In addition, KKR established a KKR Management Holdings L.P. 2009 Equity Incentive Plan, pursuant to which KKR is authorized to issue awards up to 15% of certain KKR equity interests on a fully converted and diluted basis, subject to adjustment.

The Combination Transaction was consummated on October 1, 2009, accordingly from that day forward the statement of operations only reflects the results of KKR Guernsey's allocated income or loss from its holdings in the limited partner interests of Group Holdings. For periods prior to October 1, 2009, the financial statements included herein are on a historical basis and the effects of the Combination Transaction are not reflected. On February 24, 2010, KKR elected to seek a listing on the New York Stock Exchange. The election was made pursuant to the terms of an investment agreement in effect between KKR and KKR Guernsey, which obligates each party to use reasonable efforts to implement the listing, including the preparation and filing by KKR of a registration statement with the U.S. Securities and Exchange Commission.

The Managing Partner is a Guernsey limited company, owned by individuals who are affiliated with KKR. The Managing Partner is responsible for managing the business and affairs of KKR Guernsey.

For all periods prior to the Combination Transaction, KKR Guernsey had made all of its investments through the KPE Investment Partnership, of which it was the sole limited partner. The KPE Investment Partnership was invested predominantly in private equity investments identified by KKR. Private equity investments consisted of investments in limited partner interests in KKR's private equity funds, co-investments in certain portfolio companies of those funds and investments significantly negotiated by KKR in equity or equity-linked securities, which we had referred to as negotiated equity investments. The KPE Investment Partnership made other investments in opportunistic investments, which were investments identified by KKR in the course of its business other than private equity investments, including public equities and fixed income investments. The KPE Investment Partnership managed cash and liquidity through temporary investments.

KKR Guernsey was granted consent to raise funds under The Control of Borrowing (Bailiwick of Guernsey) Ordinances 1959, as amended (the "Old Rules").

Effective October 29, 2008, all but limited sections of the Old Rules have been repealed and the Authorised Closed-Ended Investment Schemes Rules 2008 (the "New Rules") have been introduced by the Guernsey Financial Services Commission ("GFSC") with effect from December 15, 2008 under the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended. KKR Guernsey operates in accordance with the provisions of the New Rules. There is no requirement for existing funds authorized by GFSC to amend their principal documents so as to comply with the New Rules immediately, but principal documents must be amended to comply by December 15, 2010 or earlier if such documents are revised before that date.

Effective October 29, 2008, KKR Guernsey became regulated under the New Rules and is deemed to be an authorized closed-ended investment scheme under the New Rules. KKR Guernsey had an option to elect to be treated as a less regulated registered collective investment scheme by writing to the GFSC on or before April 30, 2009. KKR Guernsey did not make such election.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of KKR Guernsey were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are presented in U.S. dollars. On October 16, 2007, KKR Guernsey received a letter from the Netherlands Authority for the Financial Markets ("AFM") in which the AFM granted KKR Guernsey special dispensation from the requirement to prepare financial statements in accordance with Dutch GAAP and International Financial Reporting Standards so long as KKR Guernsey's financial statements are prepared in accordance with U.S. GAAP. Prior to the receipt of this letter, KKR Guernsey's financial statements were prepared in accordance with U.S. GAAP pursuant to a temporary approval from the AFM. KKR Guernsey utilizes the U.S. dollar as its functional currency. Effective January 1, 2009, Dutch law allows certain issuers with a statutory seat outside the European Economic Area, such as KKR Guernsey, to prepare their financial statements in accordance with U.S. GAAP.

Prior to the Combination Transaction, KKR Guernsey did not consolidate the results of operations, assets or liabilities of the KPE Investment Partnership in its financial statements. As an investment company under Financial Accounting Standards Board Accounting Standards Codification ("ASC") 946, KKR Guernsey reflected its proportionate share of the KPE Investment Partnership's net investment income or loss and net gain or loss on investments and foreign currency transactions in its statement of operations.

Subsequent to the Combination Transaction, KKR Guernsey no longer qualifies as an investment company for U.S. GAAP purposes and currently operates as a holding company for U.S. GAAP purposes. Since KKR Guernsey does not hold a controlling interest in Group Holdings, it does not consolidate the results of operations, assets or liabilities of Group Holdings in its financial statements, Rather, KKR Guernsey accounts for its interest in Group Holdings using the equity method of accounting. KKR Guernsey initially measured its interest in Group Holdings at the carrying amounts in the accounts of Group Holdings at the date of the Combination Transaction and derecognized its assets and liabilities contributed to the Group Partnerships based upon the September 30, 2009 carrying amounts. Any difference between these two amounts was accounted for as a capital transaction since the Combination Transaction was between entities under common control.

The preparation of financial statements in conformity with U.S. GAAP requires the making of estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results may vary from estimates in amounts that may be material to the financial statements. The valuation of KKR Guernsey's limited partner interests in the KPE Investment Partnership were subject to the judgment of the Managing Partner. The financial statements reflect all adjustments which are, in the opinion of the Managing Partner, necessary to fairly state the results for the periods presented.

The Managing Partner has reviewed KKR Guernsey's current financial condition and its future obligations as of December 31, 2010, and expects KKR Guernsey to continue as a going concern for at least one year. In connection with the Combination Transaction, KKR acquired all of the assets and all of the liabilities, and assumed the future liabilities, of KKR Guernsey, and therefore, KKR Guernsey has no liabilities that are not paid or performed by Group Holdings.

KKR Guernsey utilizes a reporting schedule comprised of four three-month quarters with an annual accounting period that ends on December 31. The quarterly periods ended on March 31, June 30, September 30 and December 31. Interim results may not be indicative of our results for a full fiscal year.

As of December 31, 2009 and December 31, 2008, KKR Guernsey operated through one reportable business segment for management reporting purposes.

Equity Method Investment

KKR Guernsey uses the equity method of accounting for its 100% limited partner interests in Group Holdings, whereby KKR Guernsey records its share of the underlying income or loss of Group Holdings, which is included in KKR Guernsey's statement of operations. Whilst KKR Guernsey owns 100% of the limited partner interests in Group Holdings, it does not consolidate these interests under ASC 810, “Consolidation”. On October 1, 2009, KKR Guernsey recorded its initial holdings in Group Holdings in an amount equal to its proportionate interest in Group Holdings equity and recorded the difference between that amount and the then carrying amount as a reduction in equity.

KKR Guernsey evaluates its equity method investment for impairment whenever events of changes in circumstances indicate that the carrying amount of such investment may not be recoverable. The difference between the carrying value of the equity method investment and its estimated fair value would be recognized as an impairment when the loss is deemed other than temporary.

Valuation of Limited Partner Interests

KKR Guernsey recorded its investment in the KPE Investment Partnership at fair value. Because valuing investments requires the application of valuation principles to the specific facts and circumstances of the investments, in satisfying their responsibilities, the Managing Partner utilized the services of KKR to determine the fair values of certain investments and the services of an independent valuation firm, which performed certain agreed upon procedures with respect to valuations that are prepared by KKR, to confirm that such valuations are not unreasonable. KKR Guernsey's investments in limited partner interests in the KPE Investment Partnership were considered Level III investments, as defined by ASC 820, as the investments did not have a readily available market.

Cash and Cash Equivalents

Cash and cash equivalents consisted of cash held at a bank in a liquid investment with a maturity, at the date of acquisition, not exceeding 90 days.

Concentration of Credit Risk

As of December 31, 2009, KKR Guernsey's only asset was its limited partner interests in Group Holdings accounted for as an equity method investment. Prior to the Combination Transaction, KKR Guernsey made all of its investments through the KPE Investment Partnership and its only substantial assets were limited partner interests in the KPE Investment Partnership. KKR Guernsey's cash and cash equivalents were held by one financial institution.

Other Assets

Other assets were comprised of prepaid insurance payments, which are amortized on a straight-line basis over the related period.

Investment Income

Income is recognized when earned. Prior to the Combination Transaction, KKR Guernsey recorded its proportionate share of the KPE Investment Partnership's investment income. In addition, KKR Guernsey recorded its own investment income, which was comprised of interest income related to cash management activities.

General and Administrative Expenses

Expenses are recognized when incurred. Prior to the Combination Transaction, KKR Guernsey recorded its proportionate share of the KPE Investment Partnership's expenses. In addition, KKR Guernsey recorded its own general and administrative expenses, which were comprised primarily of costs incurred in connection with the Combination Transaction, administrative costs (some of which may be expenses of KKR that are attributable to KKR Guernsey's operations and reimbursable under the services agreement), professional fees, the directors' fees and expenses that the Managing Partner pays to its independent directors and KKR Guernsey's allocated share of the total management fees that are payable under the services agreement, if any.

During the years ended December 31, 2009 and December 31, 2008, fees for audit services of $0.4 million and $0.3 million, respectively, were included in general and administrative expenses.

Neither KKR Guernsey nor its Managing Partner employed any of the individuals who carry out the day-to-day management and operations of KKR Guernsey. The personnel that carry out activities are employees of KKR and its subsidiaries. Their services are provided to KKR Guernsey for its benefit under the services agreement with KKR. None of these individuals, including the Managing Partner's chief financial officer, are required to be dedicated full-time to KKR Guernsey.

Share-Based Compensation Expense

KKR Guernsey accounted for its share-based payment transactions using a fair-value-based measurement method. See Note 8, "Stock Appreciation Rights."

Taxes

KKR Guernsey is not a taxable entity in Guernsey, has made a protective election to be treated as a partnership for U.S. federal income tax purposes and has incurred no U.S. federal income tax liability. Each unitholder takes into account its allocable share of items of income, gain, loss, deduction and credit of the partnership in computing its U.S. federal income tax liability. KKR Guernsey filed U.S. federal and state tax returns for the 2006, 2007 and 2008 tax years, which are subject to the possibility of an audit until the expiration of the applicable statute of limitations.

Subsequent Events

KKR Guernsey evaluated subsequent events from January 1, 2010 through March 10, 2010, the date the financial statements were issued.

Recently Issued Accounting Pronouncements

Measuring Fair Value

In April 2009, the Financial Accounting Standards Board (“FASB”) updated ASC 820 in order to help constituents estimate fair value when the volume and level of activity have significantly decreased for an asset or liability recorded at fair value, as well as including guidance on identifying circumstances that indicate a transaction is not orderly. The updated accounting guidance was effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The adoption of this ASC 820 update did not have a material impact on KKR Guernsey’s financial statements.

In September 2009, the FASB issued Accounting Standard Update (“ASU”) No. 2009-12, Fair Value Measurements and Disclosures (Topic 820) — Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (“ASU 2009-12”) which amended Accounting Standards Codification Subtopic 820-10, Fair Value Measurements and Disclosures — Overall . The guidance permits, as a practical expedient, an entity holding investments in certain entities that calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that net asset value per share or its equivalent without adjustment. The guidance also requires disclosure of the attributes of investments within the scope of the guidance by major category of investment. Such disclosures include the nature of any restrictions on an investor’s ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investee. The guidance is effective for interim and annual periods ending after December 15, 2009 with early adoption permitted. The adoption did not have a material impact on KKR Guernsey’s financial statements.

Derivative Instruments and Hedging Activities

Effective January 1, 2009, we adopted guidance issued by the FASB regarding disclosures about derivative instruments and hedging activities. The purpose of the guidance is to improve financial reporting of derivative instruments and hedging activities. The guidance requires enhanced disclosures to enable investors to better understand how those instruments and activities are accounted for, how and why they are used and their effects on an entity’s financial position, financial performance and cash flows. The adoption did not have a material impact on the financial statements of KKR Guernsey.

Subsequent Events

In February 2010, the FASB updated Accounting Standards Codification Section 855 (“ASC 855”), Subsequent Events, which addresses certain implementation issues related to an entity’s requirement to perform and disclose subsequent event procedures. The updated guidance requires entities to “evaluate subsequent events through the date the financial statements are available to be issued. The guidance is effective immediately. KKR Guernsey has taken into consideration this guidance when evaluating subsequent events and has included in the financial statements the required disclosures.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued Statement No. 167, Amendments to FASB Interpretation No. 46(R), and the FASB subsequently codified it as ASU 2009-17, updating ASC Section 810 Consolidations. The objective of ASU 2009-17 is to improve financial reporting by enterprises involved with variable interest entities. The FASB undertook this project to address (1) the effects on certain provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51, as revised (“FIN 46(R)”), as a result of the elimination of the qualifying special-purpose entity concept in ASU 2009-16, and (2) constituent concerns about the application of certain key provisions of FIN 46(R), including those in which the accounting and disclosures under the interpretation do not always provide timely and useful information about an enterprise’s involvement in a variable interest entity. ASU 2009-17 shall be effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. During February 2010, the scope of the ASU was modified to indefinitely exclude certain entities from the requirement to be assessed for consolidation. KKR Guernsey is currently evaluating the potential impacts of the adoption of ASU 2009-17 on its statements of operations and financial condition.

FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles

In July 2009, the FASB issued The FASB Accounting Codification and the Hierarchy of Generally Accepted Accounting Principles, as defined in Accounting Standards Codification Section 105 ("Codification"). Codification will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. On the effective date of this Statement, the Codification will supersede all then-existing accounting and reporting standards. All other accounting literature not included in the Codification will become nonauthoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. KKR Guernsey adopted the guidance effective with the issuance of its December 31, 2009 financial statements. As the guidance is limited to disclosure in the financial statements and the manner in which KKR Guernsey refers to GAAP authoritative literature, there was no material impact on KKR Guernsey's financial statements.

3. INVESTMENT IN EQUITY METHOD INVESTEE

As of December 31, 2009, KKR Guernsey's sole asset was its limited partner interests in Group Holdings reported in accordance with the equity method of accounting. The limited partner interests in Group Holdings represent 30% of the outstanding equity in the Combined Business. KKR Guernsey's share of the income (loss) generated by Group Holdings is reflected in the statement of operations for the three month period from the date of the Combination Transaction through December 31, 2009.

Investment in KKR Group Holdings L.P.

As of December 31, 2009, KKR Guernsey's holdings in limited partner interests of Group Holdings were $1,013.8 million. Presented below is the summary statement of financial condition as of December 31, 2009 and summary results of operations for the period from October 1, 2009 (the date the Combination Transaction was consummated) through December 31, 2009 for Group Holdings.

		December 31, 2009
Financial condition:		
Total assets	$	30,221,111
Total liabilities		2,859,630
Equity	$	27,361,481
Noncontrolling interests		26,347,632
KKR Group Holdings L.P partners' capital	$	1,013,849

The total assets of Group Holdings include investments of $19,417.0 million measured at Level III in the fair value hierarchy .

		October 1, 2009 through December 31, 2009
Result of operations:		
Revenues	$	129,856
Expenses		(838,633)
Investment income		1,989,708
Income before taxes		1,280,931
Income taxes		31,193
Net income		1,249,738
Less: Noncontrolling interests		(1,327,959)
Net loss attributable to KKR Group Holdings, L.P.	$	(78,221)

KKR Guernsey recorded a loss of $78.2 million related to its investment in Group Holdings for the period from October 1, 2009 through December 31, 2009 within the loss from equity method investment line item included in the statements of operations. The results of operations for Group Holdings for the period from October 1, 2009 through December 31, 2009 were impacted by the recognition, immediately following the completion of the Combination Transaction, of approximately $449.8 million relating to equity-based payments and profit sharing expense.

4. INVESTMENTS IN LIMITED PARTNER INTERESTS OF THE KPE INVESTMENT PARTNERSHIP

In connection with the Combination Transaction that was completed on October 1, 2009, KKR Guernsey's investment in limited partner interests of the KPE Investment Partnership was contributed to the Combined Business.

5. FAIR VALUE MEASUREMENTS

Subsequent to the Combination Transaction, KKR Guernsey's only asset is its holdings in the limited partner interests of Group Holdings.

As of December 31, 2008, the fair value of KKR Guernsey's cash and cash equivalents was $2.1 million and was classified as Level I.

As of December 31, 2008, KKR Guernsey's investments in limited partner interests in the KPE Investment Partnership were valued at $2,623.0 million, which as of December 31, 2008 represented 99.9% of KKR Guernsey's investments. The fair value of such investments was estimated by the Managing Partner in the absence of readily determinable fair values and was classified as Level III.

The changes in limited partner interests in the KPE Investment Partnership measured at fair value for which KKR Guernsey used Level III inputs to determine fair value were as follows, prior to the Combination Transaction, with amounts in thousands:

Fair value of limited partner interests in the KPE Investment Partnership as of December 31, 2007	$ 4,984,533
Distributions from the KPE Investment Partnership	(14,969)
Allocations from the KPE Investment Partnership:	
Net investment loss	(64,657)
Net realized loss	(104,356)
Net unrealized loss on investments and foreign currency transactions	(2,177,581)
Fair value of limited partner interests in the KPE Investment Partnership as of December 31, 2008	2,622,970
Distributions from the KPE Investment Partnership	(474,148)
Allocations from the KPE Investment Partnership:	
Net investment loss	(19,510)
Net realized loss on investments	(78,401)
Net unrealized gain on investments and foreign currency transactions	978,160
Fair value of limited partner interests in the KPE Investment Partnership as of September 30, 2009	$ 3,029,071

On October 1, 2009, KKR Guernsey's investment in the limited partner interests in the KPE Investment Partnership was contributed to Group Holdings under the terms of the Combination Transaction.

KKR Guernsey did not hold any Level II category investments.

6. LIABILITIES

As of December 31, 2009 and December 31, 2008, accrued liabilities of nil and $4.9 million, respectively, were comprised of accrued professional fees related to the Combination Transaction, payments owed to vendors for services provided to KKR Guernsey in the normal course of business and fees and expenses of the Managing Partner's board of directors.

As of December 31, 2009 and December 31, 2008, the amount due to affiliate of nil and $1.6 million, respectively, represented reimbursable direct expenses incurred by KKR.

7. COMMON UNITS

Upon completion of the initial offering and related transactions in May 2006, KKR Guernsey had 204,550,001 common units outstanding. The transactions related to the initial offering and related transactions resulted in aggregate net proceeds to KKR Guernsey of $4,830.1 million. On March 31, 2008, KKR Guernsey issued 352,225 common units to an affiliate of KKR in accordance with the investment agreement at a price of $12.51 per unit, resulting in total proceeds of $4.4 million. As of December 31, 2009, KKR Guernsey had 204,902,226 common units outstanding.

KKR Guernsey established a restricted deposit facility for a portion of its common units pursuant to which common units were deposited with a depositary bank in exchange for restricted depositary units ("RDUs") that were evidenced by restricted depositary receipts, subject to compliance with applicable ownership and transfer restrictions. The RDUs are not listed on any securities exchange.

Effective October 2, 2009, the ticker symbol for KKR Guernsey's common units on Euronext Amsterdam was changed from "KPE" to "KKR."

8. STOCK APPRECIATION RIGHTS

In March 2007, the board of directors of the Managing Partner approved the KKR Private Equity Investors, L.P. 2007 Equity Incentive Plan (the "Plan"). The Plan provides for the grant of options, share appreciation rights ("SARs"), restricted units and other unit-based awards to eligible directors, officers, employees (if any) and key service providers. The Plan allows for the issuance of awards with respect to an aggregate of 1,000,000 common units. Compensation expense is measured based on the grant date fair value of the SARs and recognized over the vesting period of the SARs on a straight-line basis.

In connection with the Combination Transaction, 190,581 SARs became vested in accordance with their terms, of which 152,657 were in-the-money as of October 1, 2009. The remaining SARs were out-of-the-money as of October 1, 2009 and were cancelled or will be cancelled upon the listing, if any, of KKR & Co. L.P. on a U.S. exchange.

During the years ended December 31, 2009 and December 31, 2008, the SARs resulted in share-based compensation expense of less than $0.1 million during each respective period.

9. RELATIONSHIP WITH KKR AND RELATED-PARTY TRANSACTIONS

In connection with the formation of KKR Guernsey and the initial offering of its common units, affiliates of KKR contributed $75.0 million in cash to KKR Guernsey and the KPE Investment Partnership, of which $65.0 million was contributed to KKR Guernsey in exchange for common units at the initial offering price of $25.00 per unit and $10.0 million was contributed to the KPE Investment Partnership in respect of general partner interests in the KPE Investment Partnership. On March 31, 2008, affiliates of KKR contributed $4.4 million to KKR Guernsey in exchange for 352,225 additional common units at a price per unit of $12.51 in fulfillment of KKR's obligation to reinvest a portion of the carried interests and incentive distribution rights received by KKR in respect of investments made by the KPE Investment Partnership.

Services Agreement

KKR Guernsey and the Managing Partner, among others, entered into a services agreement with KKR pursuant to which KKR agreed to provide certain investment, financial advisory, operational and other services to them. Under the services agreement, KKR is responsible for the day-to-day operations of the service recipients and is subject at all times to the supervision of their respective governing bodies, including the board of directors of the Managing Partner.

The services agreement contains certain provisions requiring KKR Guernsey and the other service recipients to indemnify KKR and its affiliates with respect to all losses or damages arising from acts not constituting bad faith, willful misconduct or gross negligence. The Managing Partner evaluated the impact of these guarantees on the financial statements and determined that they were not material as of December 31, 2009.

In connection with the Combination Transaction, the services agreement was amended on October 1, 2009. The amended and restated services agreement provides for substantially the same services described above.

As of October 1, 2009, the management fee payable under the services agreement was amended. Under the services agreement in effect prior to October 1, 2009, KKR Guernsey and the other service recipients agreed to pay KKR a management fee, quarterly in arrears, in an aggregate amount equal to one-fourth of the sum of:

(i) KKR Guernsey's equity, see note 1 below, up to and including $3.0 billion multiplied by 1.25%, plus
(ii) KKR Guernsey's equity in excess of $3.0 billion multiplied by 1%

(1) Generally, equity for purposes of the management fee was approximately equal to KKR Guernsey's net asset value, which would be adjusted for any items discussed below.

Under the services agreement in effect on and after October 1, 2009, KKR Guernsey and the other service recipients have agreed to pay a management fee, quarterly in arrears, in an aggregate amount equal to one-fourth the sum of:

(i) The Managed Asset Value, see note 2 below, up to and including $3.0 billion multiplied by 1.25%, plus
(ii) The Managed Asset Value in excess of $3.0 billion multiplied by 1%

(2) Generally, Managed Asset Value for purposes of the management fee is equal to the sum of the net asset value of the KPE Investment Partnership plus, without duplication, the net asset value of certain assets that are distributed to the limited partners of the KPE Investment Partnership on or after September 30, 2009.

KKR and its affiliates are paid only one management fee, regardless of whether it was payable pursuant to the services agreement or the terms of the KKR investment funds in which the KPE Investment Partnership is invested.

The management fee payable under the services agreement is reduced in any quarterly period by an amount equal to the amount of any other management fees that are paid to KKR or any of its affiliates by any of the service recipients in respect of such quarterly period.

To the extent that the amount of management fee reductions in respect of a particular quarterly period exceed the amount of the fee that is otherwise payable, KKR is required to credit the difference against any future management fees that may become payable under the services agreement. Credited amounts, however, will under no circumstance be required to be reimbursed by KKR or reduce the management fee payable in respect of any quarterly period below zero.

The management fee payable under the services agreement is not subject to reduction based on any other fees that KKR or its affiliates receive in connection with KPE Investment Partnership's investments, including any transaction or monitoring fees that were paid by a third party.

On and after October 1, 2009, because KKR has assumed the then and future liabilities of KKR Guernsey, none of the management fee was paid by KKR Guernsey.

Investment Agreement

On August 4, 2009, KKR Guernsey entered into an amended and restated investment agreement with KKR in connection with the Combination Transaction.

The investment agreement provides that KKR Guernsey and KKR each had the right to require that the other use its reasonable best efforts to cause KKR Guernsey to contribute its limited partner interests in Group Holdings to KKR in exchange for an equivalent number of KKR common units and, in connection therewith, common units received by KKR Guernsey to be listed and traded on the New York Stock Exchange or The NASDAQ Stock Market (the "U.S. Listing") by delivering an election notice to the other party.

On February 24, 2010, KKR delivered an election notice to KKR Guernsey electing a U.S. Listing on the New York Stock Exchange. Following the delivery of the election notice, each party is obligated to use reasonable efforts to implement the U.S. Listing, including the preparation and filing by KKR of a registration statement with the U.S. Securities and Exchange Commission.

In connection with the U.S. Listing, (i) KKR Guernsey will contribute its assets to KKR in return for KKR's NYSE-listed common units, (ii) KKR Guernsey will make an in-kind distribution of KKR's common units to KKR Guernsey's unitholders and will dissolve, and (iii) each KKR Guernsey unit will cease to be traded on Euronext Amsterdam and will be cancelled. The U.S. Listing is subject to the satisfaction or waiver of a number of conditions, and subject to the effectiveness of the U.S. Listing, KKR Guernsey will be dissolved and liquidated by its general partner acting as liquidator, in accordance with KKR Guernsey's limited partnership agreement and the Limited Partnerships (Guernsey) Law, 1995.

From the date of the investment agreement until the closing of the U.S. Listing (which is referred to as the consent period) without the prior consent of a majority of the independent directors of the board of the KKR Guernsey's general partner, KKR is not permitted to (i) enter into any amendment to certain agreements if in KKR's reasonable judgment the entering into such amendment, is or will result in a conflict of interest or would have a materially disproportional impact on KKR Guernsey or (ii) subject to specified exceptions, engage in certain related party transactions. In particular, the independent directors of KKR Guernsey's general partner have the right to cause KKR & Co. L.P. to enforce its rights, directly or indirectly, under the exchange agreement, tax receivable agreement, limited partnership agreements of the KKR Group Partnerships, and certain other specified agreements against KKR Holdings and certain of its subsidiaries and designees, a general partner or limited partner of KKR Holdings, or a person who holds a partnership or equity interest in the foregoing entities. In addition, the consent of a majority of the independent directors of KKR Guernsey's general partner is required to approve certain related party transactions that involve an aggregate amount in excess of $20 million or would reduce the percentage of KKR Guernsey's direct or indirect equity interest in the KKR Group Partnerships. Moreover, KKR may not allocate more than 40% of the carried interest earned in relation to its funds to its carry pool without the approval of a majority of the independent directors of the Managing Partner.

The investment agreement also provides that, for a period of six years after the closing of the U.S. Listing, the KKR Group Partnerships will indemnify each present and former director and officer of the Managing Partner and certain other persons serving in a similar role against all losses, liabilities, damages, judgments and fines incurred in connection with any suit, claim, action, proceeding, arbitration or investigation arising out of or related to actions taken by them in their capacity as directors or officers of the Managing Partner or taken by them at the request of KKR Guernsey or the Managing Partner. In addition, the investment agreement provides that KKR must provide certain directors' and officers' liability insurance for the benefit of the directors and officers (and former directors and officers) of the general partner of KKR Guernsey.

Exchange Agreement

On October 1, 2009, KKR Guernsey entered into an exchange agreement with KKR Holdings, Group Holdings and KKR Group Partnerships. KKR Holdings and certain of the transferees of its holdings of units in the KKR Group Partnership (the "KKR Group Partnership Units") may, up to four times each year, effectively exchange KKR Group Partnership Units held by them for KKR Guernsey common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. At the election of the KKR Group Partnerships and subject to approval by a majority of the independent directors of KKR Guernsey's general partner, the KKR Group Partnerships may settle most types of exchanges of KKR Group Partnership Units with cash in an amount equal to the fair market value of the KKR Guernsey common units that would otherwise be deliverable in such exchanges. If the KKR Group Partnerships elect to settle an exchange of KKR Group Partnership Units with cash from operations (rather than sales of securities), the net assets of the KKR Group Partnerships will decrease and the KKR Group Partnership Units that are acquired in the exchange will be canceled, which will result in a corresponding reduction in the number of fully diluted units that KKR Guernsey has outstanding following the exchange. As a result of the cancellation of the KKR Group Partnership Units that are acquired in the exchange, KKR Guernsey's percentage ownership of the KKR Group Partnerships will increase and KKR Holdings' percentage ownership will decrease.

Tax Receivable Agreement

The acquisition by an intermediate holding company of KKR Group Partnership Units from KKR Holdings or transferees of its KKR Group Partnership Units from time to time pursuant to the exchange agreement may result in an increase in the intermediate holding company's share of the tax basis of the tangible and intangible assets of KKR Management Holdings L.P., primarily attributable to a portion of the goodwill inherent in KKR's business, that would not otherwise have been available. This increase in tax basis may increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of tax that the 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. However, there will only be an increase in tax basis to the extent a holder of KKR Group Partnership Units effectively exchanges their KKR Management Holdings L.P. units for KKR Guernsey common units in a taxable exchange. If the effective exchange is structured as a tax free exchange, no increase in tax basis will occur. Under certain circumstances, transferees of KKR Group Partnership Units will have the right to exchange their KKR Management Holdings L.P. units in a tax-free manner, thus not resulting in an increase in tax basis.

On August 4, 2009, KKR Guernsey and the intermediate holding company entered into a tax receivable agreement with KKR Holdings requiring the 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 (or is deemed to realize, in the case of an early termination payment by its intermediate holding company or a change of control) 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 (or is deemed to realize) as a result of increases in tax basis that arise due to future payments under the agreement. Although KKR Guernsey is not aware of any issue that would cause the IRS to challenge a tax basis increase, neither KKR Holdings, KKR Guernsey nor their transferees will reimburse KKR for any payments previously made under the tax receivable agreement if such tax basis increase, or the benefits of such increases, were successfully challenged by the IRS. In the event that other companies relevant to KKR Guernsey's ownership become taxable as corporations and acquire KKR Group Partnership Units in the future, or if KKR Guernsey becomes taxable as a corporation for U.S. federal income tax purposes, each will become subject to a tax receivable agreement with substantially similar terms.

Reimbursed Expenses

During the years ended December 31, 2009 and December 31, 2008, KKR Guernsey paid KKR $3.8 million and $4.4 million, respectively, for reimbursable direct expenses incurred pursuant to the services agreement. These reimbursed expenses were included in KKR Guernsey's general and administrative expenses.

Terminated Investment Agreement

In connection with its initial offering, KKR Guernsey entered into an investment agreement pursuant to which KKR agreed to cause its affiliates to reinvest in KKR Guernsey's common units, on a periodic basis, an amount equal to 25% of the aggregate pre-tax cash distributions, if any and subject to certain exceptions, that were made in respect of the carried interests and incentive distribution rights. Reinvestment could be achieved by either a contribution to KKR Guernsey in exchange for newly issued common units or by acquiring common units in the open market or in negotiated transactions. Under this investment agreement, KKR agreed to cause each affiliate of KKR that acquired common units or RDUs pursuant to this investment agreement to enter into a three-year lock-up agreement with respect to the units acquired.

In connection with the Combination Transaction, this investment agreement was terminated on October 1, 2009.

License Agreement

KKR Guernsey and the Managing Partner as licensees, entered into a license agreement with KKR pursuant to which KKR granted each party a non-exclusive, royalty-free license to use the name “KKR.” Under this agreement, each licensee has the right to use the “KKR” name. Other than with respect to this limited license, none of the licensees have a legal right to the “KKR” name.

Other

One or more investment funds managed by KKR have an opportunity to invest from time to time in KKR Guernsey’s common units including certain funds that may raise capital over time. As part of their strategy, these funds may invest in KKR Guernsey in accordance with certain investment parameters and also may invest additional capital in other KKR funds and KKR investments as part of their investment objectives. Purchases and sales of KKR Guernsey’s common units are expected to be made through open market transactions over Euronext Amsterdam or in privately negotiated transactions, based on market conditions, the investment strategies of such funds, capital available to such funds and other factors considered relevant. KKR’s traditional private equity funds are not among the funds that may invest in KKR Guernsey’s common units. These investments would not be made by KKR Guernsey or any entities in which it invests, and they would not reduce the number of common units that KKR Guernsey has outstanding. As of December 31, 2009, funds managed by KKR owned 4,667,166 of KKR Guernsey’s common units or 2.3% of common units outstanding.

As of December 31, 2009, the directors of the Managing Partner had no direct personal interest in the limited partner interests of the KPE Investment Partnership.

10. CONTINGENCIES

As with any partnership, KKR Guernsey may become subject to claims and litigation arising in the ordinary course of business. The Managing Partner does not believe that there were any pending or threatened legal proceedings that would have had a material adverse effect on the financial position, operating results or cash flows of KKR Guernsey as of December 31, 2009.

11. SUBSEQUENT EVENTS

As announced on February 24, 2010, a distribution of $0.08 per KKR Guernsey unit, subject to applicable withholding taxes, will be payable on or about March 25, 2010 to KKR Guernsey unitholders of record as of the close of business on March 11, 2010. KKR Guernsey currently has 204,902,226 common units issued and outstanding. Prior to making such a distribution, KKR Guernsey will receive funds from KKR in an amount sufficient to meet its distribution obligation.

On February 24, 2010, KKR elected to seek a listing on the New York Stock Exchange. The election, which was made pursuant to the terms of the investment agreement in effect between KKR and KKR Guernsey, obligates each party to use reasonable efforts to implement the listing, including the preparation and filing by KKR of a registration statement with the U.S. Securities and Exchange Commission. In connection with such listing, (i) KKR Guernsey will contribute its assets to KKR in return for KKR’s NYSE-listed common units, (ii) KKR Guernsey will make an in-kind distribution of KKR’s common units to KKR Guernsey’s unitholders and will dissolve, and (iii) each KKR Guernsey unit will cease to be traded on Euronext Amsterdam and will be cancelled. KKR’s U.S. listing is subject to the satisfaction on waiver of a number of conditions.

* * * *

CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS OF KKR GROUP HOLDINGS L.P.

INDEX TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Independent Auditors' Report

To the Partners of the KKR Group Holdings L.P.

We have audited the accompanying consolidated and combined statements of financial condition of the KKR Group Holdings L.P. (the "Company") as of December 31, 2009 and 2008, 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, 2009. These consolidated and combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 consolidated and combined financial position of KKR Group Holdings L.P. as of December 31, 2009 and 2008, and the consolidated and combined results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, 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 $19.4 billion (approximately 64% of total assets) and $16.3 billion (approximately 73% of total assets) as of December 31, 2009 and 2008, 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.

As discussed in Note 2 to the consolidated and combined financial statements, the Company adopted the new presentation and disclosure requirements for non-controlling interest in consolidated financial statements.

/s/ Deloitte & Touche LLP

New York, New York
March 10, 2010

KKR GROUP HOLDINGS L.P.

CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL CONDITION

As of December 31, 2009 and 2008

(Dollars in Thousands)

	December 31, 2009	December 31, 2008
Assets		
Cash and Cash Equivalents	$ 546,739	$ 198,646
Cash and Cash Equivalents Held at Consolidated Entities	282,091	965,319
Restricted Cash and Cash Equivalents	72,298	50,389
Investments, at Fair Value	28,972,943	20,883,519
Due From Affiliates	123,988	29,889
Other Assets	223,052	313,268
Total Assets	$30,221,111	$22,441,030
Liabilities and Equity		
Debt Obligations	$ 2,060,185	$ 2,405,125
Due to Affiliates	87,741	—
Accounts Payable, Accrued Expenses and Other Liabilities	711,704	185,548
Total Liabilities	2,859,630	2,590,673
Commitments and Contingencies		
Equity		
KKR Group Holdings L.P. Partners' Capital	1,012,656	150,634
Accumulated Other Comprehensive Income	1,193	1,245
Total KKR Group Holdings L.P. Partners' Capital	1,013,849	151,879
Noncontrolling Interests in Consolidated Entities	23,275,272	19,698,478
Noncontrolling Interests held by KKR Holdings L.P.	3,072,360	—
Total Equity	27,361,481	19,850,357
Total Liabilities and Equity	$30,221,111	$22,441,030

See notes to consolidated and combined financial statements.

KKR GROUP HOLDINGS L.P.

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2009, 2008 and 2007

(Dollars in Thousands)

	For the Years Ended December 31,		
	2009	2008	2007
Revenues			
Fees	$ 331,271	$ 235,181	$ 862,265
Expenses			
Employee Compensation and Benefits	838,072	149,182	212,766
Occupancy and Related Charges	38,013	30,430	20,068
General, Administrative and Other	264,396	179,673	128,036
Fund Expenses	55,229	59,103	80,040
Total Expenses	1,195,710	418,388	440,910
Investment Income (Loss)			
Net Gains (Losses) from Investment Activities	7,505,005	(12,944,720)	1,111,572
Dividend Income	186,324	75,441	747,544
Interest Income	142,117	129,601	218,920
Interest Expense	(79,638)	(125,561)	(86,253)
Total Investment Income (Loss)	7,753,808	(12,865,239)	1,991,783
Income (Loss) Before Taxes	6,889,369	(13,048,446)	2,413,138
Income Taxes	36,998	6,786	12,064
Net Income (Loss)	6,852,371	(13,055,232)	2,401,074
Less: Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities	6,119,382	(11,850,761)	1,598,310
Less: Net Income (Loss) Attributable to Noncontrolling Interests held by KKR Holdings L.P.	(116,696)	—	—
Net Income (Loss) Attributable to KKR Group Holdings L.P.	$ 849,685	$ (1,204,471)	$ 802,764

See notes to consolidated and combined financial statements.

KKR GROUP HOLDINGS L.P.

CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2009, 2008 and 2007

(Dollars in Thousands)

	KKR Group Holdings L.P. Partners' Capital	KKR Group Holdings L.P. Accumulated Other Comprehensive Income	KKR Group Holdings L.P. Noncontrolling Interests in Consolidated Entities	Noncontrolling Interests held by KKR Holdings L.P.	Total Comprehensive Income	Total Equity
January 1, 2007	$ 1,684,794	$ 7,626	$ 20,318,440	$—		$ 22,010,860
Comprehensive Income:						
Net Income	802,764		1,598,310		$ 2,401,074	2,401,074
Other Comprehensive Income—Currency Translation Adjustment		2,026	10,306		12,332	12,332
Total Comprehensive Income					2,413,406	2,413,406
Deconsolidation of Noncontrolling Interests in Consolidated Entities			(303,888)			(303,888)
Capital Contributions	308,201		12,604,558			12,912,759
Capital Distributions	(1,288,065)		(5,477,912)			(6,765,977)
Balance at December 31, 2007	1,507,694	9,652	28,749,814	—		30,267,160
Comprehensive Income(Loss):						
Net 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 (Loss)					(13,063,657)	(13,063,657)
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)
Balance at December 31, 2008	150,634	1,245	19,698,478	—		19,850,357
Comprehensive Income:						
Net Income	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					5,605,055	5,605,055
Capital Contributions	35,499		1,935,044			1,970,543
Capital Distributions	(320,760)		(993,288)			(1,314,048)
Balance at September 30, 2009	793,279	3,662	25,314,966	—		26,111,907

(continued)

KKR GROUP HOLDINGS L.P.

CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

(Dollars in Thousands)

	KKR Group Holdings L.P.					
	KKR Group Holdings L.P. Partners' Capital	Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Entities	Noncontrolling Interests held by KKR Holdings L.P.	Total Comprehensive Income	Total Equity
Balance at September 30, 2009	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)
Balance at October 1, 2009	1,090,805	1,088	21,988,885	2,633,029		25,713,807
Comprehensive Income:						
Net Income	(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					$1,250,091	1,250,091
Capital Contributions	72		470,154	562,542		1,032,768
Capital Distributions	—		(628,425)	(6,760)		(635,185)
Balance at December 31, 2009	$1,012,656	$1,193	$23,275,272	$3,072,360		$27,361,481

See notes to consolidated and combined financial statements.

KKR GROUP HOLDINGS L.P.

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009, 2008 and 2007

(Dollars in Thousands)

	For the Years Ended December 31,		
	2009	**2008**	**2007**
Cash Flows from Operating Activities			
Net Income (Loss)	$ 6,852,371	$(13,055,232)	$ 2,401,074
Adjustments to Reconcile Net Income (Loss) to Net Cash Used in Operating Activities:			
Non-Cash Compensation Expense	562,373	—	—
Net Realized Losses (Gains) on Investments	314,407	(253,410)	(1,557,101)
Change in Unrealized (Gains) Losses on Investments	(7,819,412)	13,198,130	445,529
Other Non-Cash Amounts	(1,397)	2,387	(10,886)
Cash Flows Due to Changes in Operating Assets and Liabilities:			
Change in Cash and Cash Equivalents Held at Consolidated Entities	690,371	(565,604)	1,895,148
Change in Due from Affiliates	(21,830)	14,080	70,728
Change in Other Assets	(21,826)	87,338	(108,712)
Change in Accounts Payable, Accrued Expenses and Other Liabilities	344,137	28,724	99,260
Investments Purchased	(2,795,658)	(3,438,323)	(17,847,606)
Cash Proceeds from Sale of Investments	1,549,152	1,535,754	6,090,065
Net Cash Used in Operating Activities	(347,312)	(2,446,156)	(8,522,501)
Cash flows from Investing Activities			
Change in Restricted Cash and Cash Equivalents	(21,909)	(4,471)	(95,406)
Purchase of Noncontrolling Interests	—	(44,171)	—
Purchase of Furniture, Equipment and Leasehold Improvements	(21,050)	(13,104)	(17,063)
Net Cash Used in Investing Activities	(42,959)	(61,746)	(112,469)
Cash flows from Financing Activities			
Distributions to Noncontrolling Interests in Consolidated Entities	(1,586,300)	(1,136,819)	(5,467,241)
Contributions from Noncontrolling Interest in Consolidated Entities	2,405,198	3,942,547	12,589,477
Distributions to KKR Holdings L.P.	(6,760)	—	—
Contributions from KKR Holdings L.P.	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 KKR Group Holdings L.P.	(211,068)	(250,358)	(1,170,568)
Contributions from KKR Group Holdings L.P.	35,571	103,368	308,201
Proceeds from Debt Obligations	503,462	813,809	2,602,360
Repayment of Debt Obligations	(852,503)	(1,018,389)	(43,800)
Deferred Financing Cost Returned (Incurred)	573	(19,655)	(4,405)
Net Cash Provided by Financing Activities	738,364	2,434,503	8,814,024
Net Change in Cash and Cash Equivalents	348,093	(73,399)	179,054
Cash and Cash Equivalents, Beginning of Year	198,646	272,045	92,991
Cash and Cash Equivalents, End of Year	$ 546,739	$ 198,646	$ 272,045

(continued)

KKR GROUP HOLDINGS L.P.

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2009, 2008 and 2007

(Dollars in Thousands)

	For the Years Ended December 31,		
	2009	2008	2007
Supplemental Disclosures of Cash Flow Information			
Payments for Interest	$ 40,256	$ 70,952	$ 21,112
Payments for Income Taxes	$ 8,454	$ 4,539	$ 14,255
Supplemental Disclosures of Non-Cash Activities			
Non-Cash Debt Financing/Purchase of Investments	$ —	$625,000	$ 521,428
Non-Cash Contribution of Stock Based Compensation from KKR Holdings L.P.	$ 562,373	$ —	$ —
Non-Cash Distributions to Noncontrolling Interests in Consolidated Entities	$ 35,413	$ —	$ 10,671
Non-Cash Contributions from Noncontrolling Interests in Consolidated Entities	$ —	$ —	$ 15,081
Non-Cash Contributions from KKR Private Equity Investors, L.P.	$ (19,412)	$ —	$ —
Non-Cash Distributions to Controlling Equity Holders	$ 109,692	$ 5,599	$ 117,497
Non-Cash Distributions to KKR Holdings L.P	$ 89,005	$ —	$ —
Restricted Stock Grant from Affiliate	$ —	$ 15,939	$ —
Proceeds Due from Unsettled Sales of Investments	$ 7,733	$ —	$ —
Unsettled Purchases of Investments	$ (968)	$ —	$ —
Change in Contingent Carried Interest Repayment Guarantee	$ (18,159)	$ —	$ —
Realized Gains on Extinguishment of Debt	$ 19,761	$ —	$ —
Unrealized Losses on Foreign Exchange on Debt Obligations	$ (12,286)	$ (35,624)	$ 2,974
Conversion of Interest Payable into Debt Obligations	$ 11,576	$ —	$ —
Change in Foreign Exchange on Cash and Cash Equivalents Held at Consolidated Entities	$ 12,628	$ (14,032)	$ —
Reorganization Adjustments			
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)	$ —	$ —
Deconsolidation of Consolidated Entities(1):			
Cash and Cash Equivalents Held at Consolidated Entities	$ 5,485	$ —	$ —
Restricted Cash and Cash Equivalents	$ —	$ —	$ 157,783
Investments, at Fair Value	$ 911,603	$ —	$2,162,402
Due From Affiliates	$ 3,706	$ —	$ —
Other Assets	$ —	$ —	$ 24,952
Debt Obligations	$ —	$ —	$2,011,453
Accounts Payable, Accrued Expenses and Other Liabilities	$ 33,351	$ —	$ 40,605
Noncontrolling Interests in Consolidated Entities	$ 761,236	$ —	$ 303,888
Accumulated Other Comprehensive Income Attributable to Noncontrolling Interests in Consolidated Entities	$ —	$ —	$ 10,306

(1) Includes the non-contributed assets (1996 Fund L.P.) during 2009 and the deconsolidation of a subsidiary of KKR Financial LLC during 2007.

See notes to consolidated and combined financial statements.

KKR GROUP HOLDINGS L.P.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

(All Dollars are in Thousands Except Where Otherwise Noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

KKR Group Holdings L.P. ("Group Holdings"), together with its consolidated subsidiaries (collectively, "KKR"), is a leading global alternative asset manager that is involved in providing a broad range of asset 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 provide 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.

Reorganization and Combination Transactions

Group Holdings was formed as a Cayman Islands exempted limited partnership and is governed by its Second Amended and Restated Limited Partnership Agreement dated as of October 1, 2009. KKR Management LLC (the "KKR Managing Partner") is the general partner of KKR & Co. L.P., which is indirectly the non-economic general partner of Group Holdings. The KKR Managing Partner is controlled by KKR's senior principals (the "Senior Principals").

Historically, KKR's business was conducted through a large number of entities for which there was no single holding entity but were under the common ownership of KKR's principals and certain other individuals (collectively the "Predecessor Owners") and under the common control of the Senior Principals. 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 two new partnerships, KKR Management Holdings L.P. and KKR Fund Holdings L.P., which are referred to as the "KKR Group Partnerships." The reorganization involved a contribution of equity interests in KKR's businesses that were held by the Predecessor Owners to the KKR Group Partnerships.

On October 1, 2009, KKR & Co. L.P., KKR Private Equity Investors L.P. ("KPE") and their affiliates completed a transaction to combine the asset management business of KKR with the assets and liabilities of KPE (the "Combination Transaction"). The Combination Transaction involved the contribution of all of KPE's assets and liabilities to KKR in return for its 30% interest in the new combined business of KKR.

As a result of the Combination Transaction, KPE holds its interest in KKR as the sole owner of Group Holdings' limited partnership interests. Group Holdings holds a 30% economic interest in one of the KKR Group Partnerships through KKR Management Holdings Corp., a Delaware corporation that is a domestic corporation for U.S. federal income tax purposes, and the other KKR Group Partnership directly and through KKR Fund Holdings GP Limited, a Cayman Island limited company that is a disregarded entity for U.S. Federal income tax purposes. Group Holdings controls the KKR Group Partnerships through the controlling interests that it holds in such entities. Subsequent to the Combination Transaction, KPE changed its name to KKR & Co. (Guernsey) L.P. ("KKR Guernsey"). KKR Guernsey is publicly traded on the Euronext Amsterdam exchange under the symbol "KKR".

KKR Holdings L.P., a Cayman Islands exempted limited partnership ("KKR Holdings"), is the entity through which the Predecessor Owners hold 70% of the economic interests in the KKR Group Partnerships as of December 31, 2009.

1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)

The Reorganization Transactions and Combination Transaction (collectively the "Transactions") were accounted for as an exchange of entities under common control, in accordance with Generally Accepted Accounting Principles ("GAAP").

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 KKR PEI Investments, L.P. (the "KPE Investment Partnership"), a lower tier partnership through which KPE made all of its investments and was the sole limited partner.

The following entities and interests were included in the KKR financial statements; however, were not 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 KKR's 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.

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 KKR in the Transactions. Subsequent to the Transactions, the KKR Group Partnerships hold 100% of the controlling 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

1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)

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 the entities that are entitled to receive carry from KKR's co-investment vehicles; 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. KKR allocated approximately 40% of the carry earned during the quarter ended December 31, 2009 to these individuals. See Note 2, "Summary of Significant Accounting Policies—Profit Sharing Plans". This 40% allocation is made prior to the allocation of carried interest profits between KKR Holdings and Group 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 and fixed income funds and their respective consolidated funds, which include the KKR European Fund, KKR Millennium Fund, KKR European Fund II, KKR 2006 Fund, KKR Asian Fund, KKR European Fund III, KKR E2 Investors, the KPE Investment Partnership, certain of the KKR Strategic Capital Funds and certain other investment funds referred to as capital solution vehicles (the "KKR Funds").

Group Holdings 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 attributable to Group Holdings in the accompanying financial statements.

References in the accompanying 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, and references to KKR's "senior principals" are to principals who also hold interests in the KKR Managing Partner entitling them to vote for the election of its directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are prepared in accordance with GAAP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and absorbs a majority of the expected losses or a majority of the expected residual returns, or both.

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. Substantially 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 the Group Holdings or Group Holdings’ 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

GAAP requires an analysis to (i) determine whether an entity in which KKR holds a variable interest is a VIE, and (ii) whether KKR’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., incentive and management fees), would be expected to absorb a majority of the variability of the entity. Performance of that analysis requires

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the exercise of judgment. In evaluating whether KKR is the primary beneficiary, KKR evaluates its economic interests in the entity held either directly by KKR or indirectly through its related parties. This analysis can generally be performed qualitatively. However, if it is not readily apparent which party is the primary beneficiary, a quantitative expected losses and expected residual returns calculation will be performed. Investments and redemptions (either by KKR, affiliates of KKR or third parties) or amendments to the governing documents of the respective investment vehicle could affect an entity's status as a VIE and/or the determination of the primary beneficiary. At each reporting date, KKR assesses whether it continues to, or has begun to, absorb such majorities and will appropriately consolidate a VIE.

In KKR's role as general partner or investment advisor, it generally considers itself the sponsor of the applicable investment vehicle. For certain of these investment vehicles, KKR is determined to be the primary beneficiary and hence consolidates such investment vehicles within the financial statements.

KKR is a variable interest holder in certain VIEs which are not consolidated, as KKR is not the primary beneficiary. As of December 31, 2009, assets recognized in KKR's statement of financial condition related to our variable interests in these unconsolidated entities was comprised of $1,473 of receivables and $13,753 of investments. Therefore, KKR's aggregate maximum exposure to loss was $15,226 as of December 31, 2009.

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

For those VIEs in which KKR is the sponsor, KKR may have an obligation as general partner to provide commitments to such funds. During the year ended December 31, 2009 and 2008, KKR did not provide any support other than its obligated amount.

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 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 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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iv) 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; and

(v) a third party in KKR's capital markets business (an aggregate of 2% of the equity).

On May 30, 2008, KKR acquired all of the outstanding noncontrolling interests in the management companies of KKR's Public Markets segment ("KFI Transaction"). Immediately prior to the KFI Transaction, KKR owned 65% of the equity of such management companies. The KFI Transaction has been accounted for as an acquisition of noncontrolling interests using the purchase method of accounting. The total consideration of the KFI Transaction was $44,171. KKR recorded the excess of the total consideration over the carrying value of the noncontrolling interests acquired (which approximates the fair value of the net assets acquired and which were already included in the statements of financial condition) to finite-lived identifiable intangible assets consisting of management, monitoring, transaction, and incentive fee contracts. KKR has recorded intangible assets of $37,887 that are being amortized over an estimated useful life of ten years, based on contractual provisions that enable renewal of the contracts without substantial cost and our prior history of such renewals.

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 will 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 will no longer be paid by KKR and will be borne by KKR Holdings.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

As of December 31, 2009, approximately 69% of the fair value of KKR's Level III private equity investments have been valued by KKR in the absence of readily observable market prices. 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.

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—KKR invests in derivative financial instruments, including total rate of return swaps and credit default swaps. In a total rate of return swap, KKR receives the sum of all interest, fees and any positive economic change in fair value amounts from a reference asset with a specified notional amount and pays interest on the referenced notional amount plus any negative change in fair value amounts from such asset. Credit default swaps, when purchasing protection, involve the payment of a fixed rate premium for protection against the loss in value of an underlying debt instrument in the event of a defined credit event, such as payment default or bankruptcy. Under a credit default swap, one party acts as a guarantor by receiving the fixed periodic payment in exchange for the commitment to purchase the underlying security at par if a credit event occurs. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 then prevailing prices. Short selling allows the investor to profit from declines in market prices. The liability for such securities sold short is marked to market based on the current value of the underlying security at the date of valuation 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, nonconsolidated 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 minimizes 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.

Securities Sold Under Agreements to Repurchase

Transactions involving sales of securities under agreements to repurchase are accounted for as collateralized financings. KKR recognizes interest expense on all borrowings on an accrual basis.

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 and distributions to owners. In the accompanying financial statements, comprehensive income represents Net Income (Loss), as presented in the statements of operations and net of foreign currency translation adjustments.

(All Dollars are in Thousands Except Where Otherwise Noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and are recognized in the period during which the related services are performed.

For the years ended December 31, 2009, 2008 and 2007, fees consisted of the following:

	For the Year Ended December 31,		
	2009	2008	2007
Monitoring Fees	$174,476	$135,234	$ 93,485
Transaction Fees	91,828	41,307	683,100
Management Fees Received from Unconsolidated Funds	60,495	58,640	63,568
Incentive Fees Received from Unconsolidated Funds	4,472	—	22,112
Total Fees	$331,271	$235,181	$862,265

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 $158,243, $112,258 and $68,754 for the years ended December 31, 2009, 2008 and 2007, 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 $16,233, $22,976 and $24,731 for the years ended December 31, 2009, 2008, and 2007, respectively.

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 recorded upon closing of the transaction. Fees are typically paid on or around the closing. Transaction fees received amounted to $91,828, $41,307 and $683,100 for the years ended December 31, 2009, 2008 and 2007, respectively.

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 deferred until the transaction is consummated and are recorded in Other Assets on the date the expense is 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Management Fees Received from Consolidated and Unconsolidated Funds

For KKR's private equity funds and certain unconsolidated KKR sponsored funds, gross management fees generally range from 1% to 1.5% of committed capital during the fund's investment period and approximately 0.75% of invested capital after the expiration of the fund's investment period. Typically, an investment period is defined as a period of up to six years. The actual length of the period may be shorter based on the timing and use of committed capital.

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) that fund's equity up to and including $3 billion multiplied by 1.25% plus (ii) that fund's 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, fees earned from the KPE Investment Partnership are eliminated in consolidation.

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 the fees does not have an effect on the net income attributable to Group Holdings or Group Holdings' partners' capital.

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, 2009, the amount subject to refund for which no liability has been recorded totaled $148.9 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.

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 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. The management agreement also provides for a quarterly incentive fee if KFN's financial performance exceeds certain benchmarks. Once earned, there are no provisions for clawbacks of incentive fees received from KFN.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Funds

KKR Strategic Capital Funds

KKR has entered into management agreements with the side-by-side funds comprising the KKR Strategic Capital Funds pursuant to which it has agreed to provide them with management and other services. Under the management agreement and, in some cases, other documents governing the individual funds, KKR is entitled to receive management and incentive fees.

KKR earns a base management fee, computed and payable monthly in arrears. The management agreement also provided for an incentive fee if the fund's financial performance exceeds certain benchmarks. These incentive fees, is any, were accrued annually, after all contingencies had been removed. Once earned, there are no provisions for clawbacks of incentive fees received from the side-by-side funds comprising the KKR Strategic Capital Funds. Effective December 1, 2009, KKR waived any future incentive fees.

Management and incentive fees received from consolidated KKR Strategic Capital Funds have been eliminated. However, because these amounts are funded by, and earned from limited partners, 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 the fees does not have an effect on net income attributable to Group Holdings or Group Holdings partners' capital.

Capital Solutions Funds

KKR's management agreement for its capital solutions funds that principally invest in less liquid credit products and capital solution investments provides for management fees and carried interest. In the fund's investment period, management fees are determined quarterly based on a fixed annual rate of the average capital contributions made in connection with portfolio investments and a fixed annual rate on the average uncalled capital commitment. After the fund's investment period, management fees are determined quarterly based on a fixed rate on the net asset value of the fund. For the purpose of calculating the management fees, the investment period, average capital contributions made in connection with portfolio investments, average uncalled capital commitment, and net asset value are terms defined in the management agreement. In addition, the management agreement provides for a carried interest on investment disposition proceeds in excess of the capital contributions made for such investment. The carried interest is subject to a preferred return prior to any distributions of carried interest.

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. 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

KKR's management agreements for certain unconsolidated fixed income oriented funds referred to as "Separately Managed Accounts" principally invest in liquid strategies, such as leveraged loans and high yield bonds and provide for management fees determined quarterly based on a fixed rate percentage of the fund's average net asset value. For purposes of calculating the management fee, the average net asset value is an amount defined in the management agreements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and foreign currency options. 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 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, management 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 $832 million, $(1,197) million and $306 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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.

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. As of December 31, 2009, the amount of carried interest KKR principals have received, that is subject to this clawback provision was $716.2 million, assuming that all applicable private equity funds were liquidated at no value, a possibility which KKR believes to be remote. Had the investments in such funds been liquidated at their December 31, 2009 fair values, the clawback obligation would have been $84.9 million of which $77.1 million is due from affiliates and $7.8 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,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 responsible for any clawback obligations relating to carry distributions received prior to the Transactions up to a maximum of $223.6 million. Accordingly, at December 31, 2009, KKR has recorded a receivable of $77.1 million within Due from Affiliates on the statements of financial condition for the amount of the clawback obligation required to be funded by KKR principals. See Note 12 "Commitments and Contingencies."

Carry distributions arising subsequent to the Transactions will be allocated to Group Holdings, KKR Holdings and to carry pool participants in accordance with the terms of the instruments governing the KKR Group Partnerships. Any clawback obligations relating to carry distributions subsequent to the Transactions will be the responsibility of the KKR Group Partnerships and carry pool participants.

Net Loss Sharing Provision

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 funds 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, 2009, the net loss sharing obligation would have been approximately $93.6 million, all of which is attributable to the KKR Group Partnerships. If the vehicles were liquidated at zero value, the contingent repayment obligation would have been approximately $1,182.7 million as of December 31, 2009. See Note 12 "Commitments and Contingencies." Unlike the "clawback" provisions, KKR will be responsible for amounts due under net loss sharing arrangements and will indemnify its principals for personal guarantees that they have provided with respect to such amounts.

In KKR's private equity funds where the allocation of cumulative net losses is proportional to the capital contributed by the partners in the fund, KKR will not earn any carried interest in that fund until all such losses have been recovered. As losses are recovered, income is allocated in proportion to the capital contributed until the fund has reached a net positive investment return, at which time carried interest is recognized and income is allocated as described above. The performance of each fund is independent from all other funds and the losses to be recovered vary from fund to fund based on the size and performance of the underlying investments in each fund.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 criteria, 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 shares 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, across its different operations 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2009, $164.4 million and $2.8 million was charged to compensation and benefits and general and administrative expense, respectively 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 in current income to the extent that unrealized gains and losses on the related investment are included in income, otherwise they 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, 2009, 2008, and 2007.

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 Group Holdings 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 Group Holdings' share of this income is reflected in the financial statements.

Subsequent to the Transactions, KKR uses 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 and liabilities

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. KKR reviews its tax positions quarterly and adjusts its tax balances as new information becomes available.

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.

Recently Issued Accounting Pronouncements

Effective January 2009, KKR adopted guidance on the accounting and financial statement presentation of noncontrolling (minority) interests. The guidance requires reporting entities to present non-redeemable noncontrolling interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interest holders. As a result, (1) with respect to the statements of financial condition, noncontrolling interests have been reclassified as a component of Equity, (2) with respect to the statements of operations, Net Income (Loss) is presented before noncontrolling interests and the statements of operations net to Net Income (Loss) Attributable to Group Holdings, and (3) with respect to the statements of changes in equity, a roll forward column has been included for noncontrolling interests. The presentation and disclosure requirements have been applied retrospectively for all periods presented in accordance with the issued guidance. The guidance also clarifies the scope of accounting and reporting for decreases in ownership of a subsidiary to include groups of assets that constitute a business. The scope clarification did not have a material impact on the KKR financial statements.

Effective January 1, 2009, KKR adopted guidance issued by the FASB regarding disclosures about derivative instruments and hedging activities. The purpose of the guidance is to improve financial reporting of derivative instruments and hedging activities. The guidance requires enhanced disclosures to enable investors to better understand how those instruments and activities are accounted for, how and why they are used and their effects on an entity's financial position, financial performance and cash

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

flows. The adoption resulted in additional required disclosures relating to derivative instruments, which have been reflected in the accompanying financial statements.

Effective January 1, 2009, KKR adopted guidance on the determination of the useful life of intangible assets. The guidance amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. The new guidance applies prospectively to (a) intangible assets that are acquired individually or with a group of other assets and (b) both intangible assets acquired in business combinations and asset acquisitions. KKR did not acquire any intangible assets during the year ended December 31, 2009.

In April 2009, the Financial Accounting Standards Board ("FASB") updated Accounting Standards Codification Section 820 ("ASC 820") in order to help constituents estimate fair value when the volume and level of activity have significantly decreased for an asset or liability recorded at fair value, as well as including guidance on identifying circumstances that indicate a transaction is not orderly. The updated accounting guidance was effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The adoption of this ASC 820 update did not have a material impact on KKR's financial statements.

In April 2009, the FASB updated Accounting Standards Codification Section 320 ("ASC 320") to provide new guidance on the recognition of other-than-temporary impairments of investments in debt securities and provide new presentation and disclosure requirements for other-than-temporary impairments of investments in debt and equity securities. The updated accounting guidance is effective for financial statements issued for interim or annual periods ending after June 15, 2009. The adoption of this ASC 320 update did not have a material impact on KKR's financial statements.

In April 2009, the FASB updated Accounting Standards Codification Section 825 ("ASC 825") to require disclosures about fair value of financial instruments in interim reporting periods. Such disclosures were previously required only in annual financial statements. The updated disclosure guidance was effective for financial statements issued for interim or annual periods ending after June 15, 2009. The adoption of this ASC 825 update did not have a material impact on KKR's financial statements.

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R),* and the FASB subsequently codified it as ASU 2009-17, updating ASC Section 810, *Consolidations*. The objective of ASU 2009-17 is to improve financial reporting by enterprises involved with variable interest entities. The FASB undertook this project to address (1) the effects on certain provisions of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51, as revised* ("FIN 46(R)"), as a result of the elimination of the qualifying special-purpose entity concept in ASU 2009-16, and (2) constituent concerns about the application of certain key provisions of FIN 46(R), including those in which the accounting and disclosures under the interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. ASU 2009-17 shall be effective as of the beginning of the reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. During February 2010, the scope of the ASU was modified to indefinitely exclude certain entities from

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the requirement to be assessed for consolidation. KKR is currently evaluating the potential impacts of the adoption of ASU 2009-17 on its statements of operations and financial condition.

In July 2009, the FASB issued *The FASB Accounting Codification and the Hierarchy of Generally Accepted Accounting Principles*, as defined in Accounting Standards Codification Section 105 ("Codification"). Codification will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-SEC accounting literature not included in the Codification will become nonauthoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this guidance is limited to disclosure in the financial statements and the manner in which KKR refers to GAAP authoritative literature, there was no material impact on KKR's financial statements.

In September 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-06, *Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities* ("ASU 2009-06") which amended Accounting Standards Codification Subtopic 740-10, *Income Taxes—Overall* . The updated guidance considers an entity's assertion that it is a tax-exempt not for profit or a pass through entity as a tax position that requires evaluation under Subtopic 740-10. In addition, ASU 2009-06 provided implementation guidance on the attribution of income taxes to entities and owners. The revised guidance is effective for periods ending after September 15, 2009. The adoption of ASU 2009-06 did not have a material impact on the financial statements.

In September 2009, the FASB issued ASU No. 2009-12, Fair Value Measurements and Disclosures (Topic 820)*—Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) ("ASU 2009-12") which amended Accounting Standards Codification Subtopic 820-10, Fair Value Measurements and Disclosures—Overall*. The guidance permits, as a practical expedient, an entity holding investments in certain entities that calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that net asset value per share or its equivalent without adjustment. The guidance also requires disclosure of the attributes of investments within the scope of the guidance by major category of investment. Such disclosures include the nature of any restrictions on an investor's ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investee. The guidance is effective for interim and annual periods ending after December 15, 2009 with early adoption permitted. The adoption of ASU 2009-12 did not have a material impact on the fair value determination of applicable investments.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures About Fair Value Measurements* which amended ASC 820, *Fair Value Measurements and Disclosures*. The updated guidance requires an entity to present detailed disclosures about transfers to and from Level 1 and 2 of the Valuation Hierarchy effective January 1, 2010 and requires an entity to present purchases, sales, issuances, and settlements on a "gross" basis within the Level 3 (of the Valuation Hierarchy) reconciliation effective January 1, 2011. KKR will adopt the guidance during 2010 and 2011, as

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

required, and the adoption will have no impact on KKR's financial position or results of operations; however, it will result in additional required disclosures.

In February 2010, the FASB updated Accounting Standards Codification Section 855 ("ASC 855"), *Subsequent Events*, which addresses certain implementation issues related to an entity's requirement to perform and disclose subsequent event procedures. The updated guidance requires SEC filers and conduit debt obligors for conduit debt securities that are traded in a public market to evaluate subsequent events through the date the financials are issued. All other entities are required to "evaluate subsequent events through the date the financial statements are available to be issued." This guidance also exempts SEC filers from disclosing the date through which subsequent events have been evaluated. The guidance is effective immediately. KKR has taken into consideration this guidance when evaluating subsequent events and has included in the financial statements the required disclosures.

(All Dollars are in Thousands Except Where Otherwise Noted)

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 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, 2009		Year Ended December 31, 2008		Year Ended December 31, 2007	
	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(a)	$(173,548)	$7,549,495	$ 353,406	$(13,333,975)	$1,500,283	$(166,516)
Other Investments(a)	(167,718)	560,219	(157,306)	(376,661)	56,818	(88,881)
Foreign Exchange Contracts(b)	6,146	(242,621)	40,234	489,756	—	(202,911)
Foreign Exchange Option(b)	8,788	(29,766)	8,998	21,325	—	10,754
Futures Contracts(b)	(3,856)	—	—	—	—	—
Call Options Written(b)	(12)	23	3,698	(2,025)	—	2,025
Securities Sold Short(b)	(7,958)	(6,994)	12,364	(133)	—	—
Other Derivative Liabilities(b)	(4,172)	15,034	(7,771)	(17,149)	—	—
Contingent Carried Interest Repayment Guarantee(c)	(4,466)	(13,693)	—	—	—	—
Debt Obligations(d)	19,761	(12,285)	13,819	20,732	—	—
Foreign Exchange Gains (Losses) on Cash and Cash Equivalents held at Consolidated KKR Funds(e)	12,628	—	(14,032)	—	—	—
Total Net Gains (Losses) from Investment Activities	**$(314,407)**	**$7,819,412**	**$ 253,410**	**$(13,198,130)**	**$1,557,101**	**$(445,529)**

(a) See Note 4 "Investments".

(b) See Note 6 "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities".

(c) See Note 12 "Commitments and Contingencies".

(d) See Note 7 "Debt Obligations".

(e) See Statement of Cash Flows Supplemental Disclosures

(All Dollars are in Thousands Except Where Otherwise Noted)

4. INVESTMENTS

Investments, at Fair Value consist of the following:

	Fair Value	
	December 31, 2009	December 31, 2008
Private Equity Investments	$27,950,840	$20,230,405
Other Investments	1,022,103	653,114
	$28,972,943	$20,883,519

As of December 31, 2009 and 2008, Investments, at fair value totaling $5,632,235 and $4,790,255, respectively, were pledged as collateral against various financing arrangements. See Note 7 "Debt Obligations."

(All Dollars are in Thousands Except Where Otherwise Noted)

4. INVESTMENTS (Continued)

Private Equity Investments

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

	Fair Value		Fair Value as a Percentage of Total	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
North America				
Retail	$ 4,567,691	$ 2,676,801	16.3%	13.2%
Healthcare	3,609,996	2,285,506	12.9%	11.3%
Financial Services	2,579,309	2,632,998	9.2%	13.0%
Technology	1,876,567	970,409	6.7%	4.8%
Energy	1,305,580	1,412,075	4.7%	7.0%
Media	1,256,363	1,138,520	4.5%	5.6%
Consumer Products	720,915	360,398	2.6%	1.8%
Education	683,070	456,061	2.4%	2.3%
Chemicals	251,059	234,436	0.9%	1.2%
Telecom	—	34,946	0.0%	0.2%
Hotels/Leisure	6,232	10,179	0.0%	0.1%
North America Total (Cost: December 31, 2009, $16,340,262; December 31, 2008, $17,052,851)	16,856,782	12,212,329	60.2%	60.5%
Europe				
Manufacturing	2,199,457	2,103,930	7.9%	10.4%
Healthcare	1,953,069	1,410,686	7.0%	7.0%
Telecom	1,031,706	710,611	3.7%	3.5%
Technology	912,829	609,955	3.3%	3.0%
Recycling	224,822	389,832	0.8%	1.9%
Retail	219,089	236,672	0.8%	1.2%
Media	185,957	89,060	0.7%	0.4%
Transportation	158,655	154,810	0.6%	0.8%
Europe Total (Cost: December 31, 2009, $10,081,881; December 31, 2008, $10,226,067)	6,885,584	5,705,556	24.8%	28.2%
Australia, Asia and Other Locations				
Technology	2,431,647	1,386,984	8.6%	6.9%
Consumer Products	653,631	99,208	2.3%	0.4%
Media	423,742	287,638	1.5%	1.4%
Financial Services	273,876	148,655	1.0%	0.7%
Telecom	248,513	222,795	0.9%	1.1%
Manufacturing	128,965	117,240	0.5%	0.6%
Recycling	48,100	50,000	0.2%	0.2%
Australia, Asia and Other Locations, Total (Cost: December 31, 2009, $3,329,389; December 31, 2008, $2,703,356)	4,208,474	2,312,520	15.0%	11.3%
Private Equity Investments (Cost: December 31, 2009, $29,751,532; December 31, 2008, $29,982,274)	$27,950,840	$20,230,405	100.0%	100.0%

(All Dollars are in Thousands Except Where Otherwise Noted)

4. INVESTMENTS (Continued)

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.

As of December 31, 2008, private equity investments which represented greater than 5% of the net assets of consolidated private equity funds included: (i) First Data valued at $1,514,986; (ii) Legrand S.A. valued at $1,501,887; (iii) Energy Future Holdings valued at $1,412,075; (iv) Alliance Boots valued at $1,410,686; (v) Dollar General valued at $1,398,016; (vi) Biomet valued at $1,054,149; and (vii) Legg Mason valued at $1,053,059.

The majority of the securities underlying KKR's private equity investments represent equity securities. As of December 31, 2009 and 2008, the aggregate amount of investments that were other than equity securities were $2,814,030 and $2,016,278, respectively.

Other Investments

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

	Fair Value	
	December 31, 2009	December 31, 2008
Corporate Credit Investments(a)	$ 877,830	$480,170
Equity Securities(b)	76,808	2,847
Other	67,465	170,097
Total Other Investments (Cost: December 31, 2009 $931,955; December 31, 2008, $1,120,578)	$1,022,103	$653,114

(a) Represents corporate high yield securities and loans classified as trading securities. Net unrealized trading gains (losses) relating to these investments amounted to $78,479 and ($183,567) as of December 31, 2009 and 2008, respectively.

(b) Net unrealized trading gains (losses) relating to these investments amounted to $10,028 and ($425) as of December 31, 2009 and 2008, respectively.

(All Dollars are in Thousands Except Where Otherwise Noted)

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, 2009 and December 31, 2008.

Assets, at fair value:

	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

	December 31, 2008			
	Level I	Level II	Level III	Total
Private Equity Investments	$1,908,845	$2,164,933	$16,156,627	$20,230,405
Other Investments	155,020	335,237	162,857	653,114
Total Investments	2,063,865	2,500,170	16,319,484	20,883,519
Unrealized Gains on Foreign Exchange Forward Contracts	—	84,094	—	84,094
Foreign Currency Options	—	45,816	—	45,816
Total Assets	$2,063,865	$2,630,080	$16,319,484	$21,013,429

Liabilities, at fair value:

	December 31, 2009			
	Level I	Level II	Level III	Total
Securities Sold, Not Yet Purchased	$ 82,888	$ 865	$ —	$ 83,753
Unrealized Loss on 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

(All Dollars are in Thousands Except Where Otherwise Noted)

5. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

	December 31, 2008			
	Level I	Level II	Level III	Total
Securities Sold, Not Yet Purchased	$ 1,916	$ —	$ —	$ 1,916
Interest Rate Swap	—	12,539	—	12,539
Total Return Swap	—	4,610	—	4,610
Total Liabilities	$ 1,916	$ 17,149	$ —	$ 19,065

The following table summarizes KKR's Level III investments and other financial instruments by valuation methodology as of December 31, 2009:

	December 31, 2009		
	Private Equity Investments	Other Investments	Total Level III Holdings
Third-Party Fund Managers	0.0%	0.3%	0.3%
Public/Private Company Comparables and Discounted Cash Flows	99.5%	0.2%	99.7%
Total	99.5%	0.5%	100.0%

The changes in investments and other financial instruments measured at fair value for which KKR has used Level III inputs to determine fair value for the year ended December 31, 2009 and 2008 are as follows:

	Year ended December 31, 2009
Balance, Beginning of Period	$16,319,484
Transfers In	592,575
Transfers Out	(4,390,580)
Purchases	1,531,808
Sales	(484,791)
Net Realized Gains (Losses)	(298,361)
Net Unrealized Gains (Losses)	6,146,901
Balance, End of Period	$19,417,036
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	$ 3,366,548

5. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

The Transfers Out of Level III noted in the table above are principally attributable to the Reorganization Transactions and private equity investments in certain portfolio companies that had their initial public offerings during the period.

	Year ended December 31, 2008
Balance, Beginning of Period	$24,391,146
Transfers In	—
Transfers Out	—
Purchases	2,101,553
Sales	(610,670)
Net Realized Gains (Losses)	150,240
Net Unrealized Gains (Losses)	(9,712,785)
Balance, End of Period	$16,319,484
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	$(9,880,084)

Total realized and unrealized gains and losses recorded for Level III investments are reported in Net Gains (Losses) from Investment Activities in the statements of operations.

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

(All Dollars are in Thousands Except Where Otherwise Noted)

6. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Other assets consist of the following:

	December 31, 2009	December 31, 2008
Interest Receivable	$ 54,974	$ 42,751
Intangible Assets, net(a)	31,888	35,676
Furniture & Fixtures, net(b)	29,581	38,966
Deferred Tax Assets	24,616	3,610
Leasehold Improvements, net(b)	21,390	19,247
Foreign Currency Option(c)	13,055	45,816
Deferred Financing Costs	10,954	18,070
Unsettled Investment Trades(d)	7,733	—
Prepaid Expenses	5,573	4,243
Unrealized Gains on Foreign Exchange Forward Contracts(e)	—	84,094
Other	23,288	20,795
	$223,052	$313,268

(a) Net of accumulated amortization of $5,999 and $2,211 as of December 31, 2009 and 2008, respectively. Amortization expense totaled $3,788 and $2,211 for the years ended December 31, 2009 and 2008, respectively. There was no amortization expense for the year ended December 31, 2007 as the intangibles were purchased in 2008.

(b) Net of accumulated depreciation and amortization of $60,170 and $50,276 as of December 31, 2009 and 2008, respectively. Depreciation and amortization expense totaled $9,799, $17,352 and $4,542 for the years ended December 31, 2009, 2008, and 2007, respectively.

(c) Represents a hedging instrument used to manage foreign exchange risk. The instrument is 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 this instrument. The cost basis for this instrument at December 31, 2009 and 2008 was $10,741 and $13,736, respectively.

(d) Represents amounts due from third parties for investments sold for which cash has not been received as of December 31, 2009.

(e) 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 for $125,174 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.

(All Dollars are in Thousands Except Where Otherwise Noted)

6. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES (Continued)

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

	December 31, 2009	December 31, 2008
Amounts payable to carry pool (a)	$200,918	$ 12,342
Unrealized Losses on Foreign Exchange Forward Contracts(b)	125,174	—
Interest Payable	114,807	92,618
Accounts Payable and Accrued Expenses	87,023	40,125
Securities Sold, Not Yet Purchased(c)	83,753	1,916
Deffered Tax Liabilities	67,243	—
Unsettled Investment Trades(d)	14,149	13,183
Accrued compensation and benefits	8,094	547
Deferred Revenue	3,535	4,656
Derivative Liabilities(e)	2,115	17,149
Other	4,893	3,012
	$711,704	$185,548

(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 "Significant Accounting Policies—Profit Sharing Plans".

(b) 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, 2008 was an unrealized gain for $84,094 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.

(c) 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, 2009 and 2008 was $76,628 and $1,785, respectively.

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

(e) Represents derivative financial instruments used to manage credit and market 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. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments.

(All Dollars are in Thousands Except Where Otherwise Noted)

7. DEBT OBLIGATIONS

Debt obligations consist of the following:

	December 31, 2009	December 31, 2008
Investment Financing Arrangements	$1,326,488	$1,314,911
KKR Revolving Credit Agreements	733,697	1,090,214
	$2,060,185	$2,405,125

Investment Financing Agreements:

Certain of KKR's private equity funds have entered into financing arrangements with major financial institutions in connection with specific 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, 2009, KKR had made $2,588.3 million in private equity investments, of which $1,326.5 million was funded using these financing arrangements. Total availability under these financing arrangements amounted to $1,328.6 million as of December 31, 2009.

Of the $1,326.5 million of financing, $1,146.4 million was structured through the use of total return swaps which effectively convert third party capital contributions into borrowings of KKR. 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 up to the amount borrowed 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 0.90% to three-month LIBOR plus 1.75% (rates ranging from 1.2% to 2.0% as of December 31, 2009). On January 28, 2010, $350 million was repaid.

The remaining $180.1 million of financing was structured through the use of a syndicated term and a revolving credit facility (the "Term Facility"). The per annum rate of interest for each borrowing under the Term Facility is 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 (rates range from 3.3% to 7.2% at December 31, 2009) for the first five years of the loan. Commencing on the fifth anniversary of the Term Facility, the per annum rate of interest will equal the one year LIBOR rate plus 1.75%.

KKR Revolving Credit Agreements:

Management Company Credit Agreement

On February 26, 2008, KKR entered into a credit agreement with a major financial institution. The Management Company Credit Agreement provides for revolving borrowings of up to $1 billion, with a $50 million sublimit for swingline notes and a $25 million sublimit for letters of credit. The facility has a term of three years that expires on February 26, 2011, which may be extended through February 26, 2013 at the option of KKR. As of December 31, 2009, $25 million was outstanding under the Management Company Credit Agreement, and the interest rate on such borrowings was approximately 0.7%. In January 2010, the outstanding principal and accrued interest as of December 31, 2009 were repaid.

(All Dollars are in Thousands Except Where Otherwise Noted)

7. DEBT OBLIGATIONS (Continued)

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, 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, 2009, 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 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.

On September 17, 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 Principal Credit Agreement. At the time of the assumption, $47.6 million of borrowings were outstanding on the commitment and KKR paid $32.7 million to the counterparty in exchange for the loans and unused commitment. In consolidation, all amounts related to these borrowings are eliminated. As a result, the remaining $14.9 million has been recorded in Net Gains (Losses) from Investment Activities in the accompanying statements of operations. See Note 3 “Net Gains (Losses) from Investment Activities”.

As of December 31, 2009, the interest rates on borrowings under the Principal Credit Agreement ranged from 1.0% to 1.5%. As of December 31, 2009, KKR had $708.7 million of borrowings outstanding. 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.

	December 31, 2009	December 31, 2008
Notional borrowings under the Principal Credit Agreement	$684,768	$937,770
Borrowings Related to Lehman	29,400	31,200
Foreign currency adjustments:		
Less: Unrealized gain related to borrowings denominated in British pounds sterling	5,471	14,058
Less: Unrealized gain related to borrowings denominated in Canadian dollars	—	3,698
Total	$708,697	$951,214

7. DEBT OBLIGATIONS (Continued)

In February 2010, $404.1 million of revolving borrowings outstanding as of December 31, 2009 were repaid under the Principal Credit Agreement.

Short-term Loans:

From time to time, KKR may borrow amounts to satisfy general short-term needs of the 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, 2009 and 2008.

KKR's fixed income funds may leverage their portfolios of securities and loans through the use of short-term borrowings in the form of warehouse facilities and repurchase agreements. These borrowings used by KKR generally bear interest at floating rates based on a spread above the London Interbank Offered Rate ("LIBOR"). There were no such borrowings as of December 31, 2009 and 2008.

The following table sets forth information relating to the anticipated future cash payments that were associated with KKR's debt obligations as of December 31, 2009.

Payments due by Period ($ in millions)	Amount
<1 Year	$ 350.0
1-3 Years	905.1
3-5 Years	180.1
>5 Years	625.0
Total	**$2,060.2**

8. 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 Group Holdings will be subject to federal, state and local corporate income taxes.

(All Dollars are in Thousands Except Where Otherwise Noted)

8. INCOME TAXES (Continued)

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

	Year Ended December 31,		
	2009	2008	2007
Current			
Federal Income Tax	$ 7,595	$ —	$ —
State and Local Income Tax	14,081	(612)	9,754
Foreign Income Tax	6,469	6,366	7,042
Subtotal	28,145	5,754	16,796
Deferred			
Federal Income Tax	11,781	—	—
State and Local Income Tax	1,708	1,483	(4,839)
Foreign Income Tax	(4,636)	(451)	107
Subtotal	8,853	1,032	(4,732)
Total Income Taxes	$36,998	$6,786	$12,064

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

	As of December 31, 2009	
	2009	2008
Deferred Tax Assets		
Fund Management Fees	$10,162	$ —
Net Operating Loss Carryforwards	3,477	2,726
Employee Compensation	7,263	650
Depreciation and Amortization	2,586	—
Other	1,128	234
Total Deferred Tax Assets	$24,616	$3,610
Deferred Tax Liabilities		
Investment Basis Differences	$66,203	$ —
Other	1,040	837
Total Deferred Tax Liabilities	$67,243	$ 837

In connection with the completion of the Transactions, KKR recorded an adjustment to equity for a net deferred tax liability of $36,547 to establish opening balances for KKR Management Holdings Corp. The components of this amount are included in the above table. Deferred tax assets are included within Other Assets and deferred tax liabilities are included in Accounts Payable, Accrued Expenses, and Other Liabilities in the accompanying Statements of Financial Position.

(All Dollars are in Thousands Except Where Otherwise Noted)

8. INCOME TAXES (Continued)

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

	Year Ended December 31,		
	2009	2008	2007
Income Before Taxes at Statutory Rate	$ 2,411,279	$(521,938)	$ 96,526
Pass Through Income	(2,463,097)	521,938	(96,526)
Foreign Income Taxes	1,833	5,915	7,149
State and Local Income Taxes	8,819	871	4,915
Other	78,164	—	—
Effective Tax Expense	$ 36,998	$ 6,786	$ 12,064

U.S. income and foreign withholding taxes should not be provided on the undistributed earnings of foreign subsidiaries that are essentially permanent in nature. There were no significant undistributed earnings at December 31, 2009.

KKR has gross operating loss carryforwards of $121,555 and $69,625 in certain local jurisdictions for the years ended December 31, 2009 and 2008, respectively. Such loss carryforwards expire between 2028 and 2029.

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

	Year Ended December 31 2009
Unrecognized Tax Benefits, January 1	$ —
Gross increases in tax positions in prior periods	—
Gross decreases in tax positions in prior periods	—
Gross increases in tax positions in current period	4,640
Settlement of tax positions	—
Lapse of statute of limitations	—
Unrecognized Tax Benefits, December 31	$4,640

Included in the balance of unrecognized tax benefits at December 31, 2009 are $4.6 million of tax benefits that, if recognized, would affect the effective tax rate. There were no uncertain tax positions identified for periods before January 1, 2009. KKR believes that there will not be a significant increase or decrease to the tax positions within 12 months of the reporting date.

8. INCOME TAXES (Continued)

For the year ended December 31, 2009, KKR recorded income tax expense of approximately $4.6 million related to uncertain tax positions taken on state, local and foreign tax returns, the statutes for which remain open. For the year ended December 31, 2009, KKR's tax provision included $0.5 million related to interest and $0 related to penalties. No such charges were recorded for the years ended December 31, 2008 and 2007 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, 2009, KKR's and the predecessor entities' state and local tax returns for the years 2005 through 2009 are open under normal statute of limitations and therefore subject to examination.

9. EQUITY-BASED COMPENSATION

Upon completion of the Transactions and through December 31, 2009, KKR's principals and certain operating consultants received grants of 433,723,898 KKR Group Partnership Units. These KKR Group Partnership Units are held through units in KKR Holdings, which owns all of the outstanding KKR Group Partnership Units that KKR Guernsey does not own through Group Holdings. These units are subject to minimum retained ownership requirements and transfer restrictions, and allow for the ability to exchange into units of KKR Guernsey (or a successor company) on a one for one basis.

Except for any units that vested on the date of grant, units are subject to service based vesting over a five-year period. In addition, units may be subject to performance based vesting conditions prior to exchange. 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 unitholders 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 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.

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 closing price of KKR Guernsey'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 closing price of KKR Guernsey's units) on the grant date, discounted for the

9. EQUITY-BASED COMPENSATION (Continued)

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 3% annually based upon expected turnover by employee class. For the year ended December 31, 2009, KKR recorded compensation expense of $451.7 million in relation to equity-based awards of KKR Group Partnership Units held through KKR Holdings to principals. As of December 31, 2009 there was approximately $1.0 billion of estimated unrecognized compensation expense related to unvested awards. That cost is expected to be recognized over a weighted-average period of 1.8 years, using the graded attribution method, which treats each vesting portion as a separate award.

Operating Consultant Units—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 closing price of KKR Guernsey's 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 closing price of KKR Guernsey's 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 3% annually based upon expected turnover by class of operating consultant. For the year ended December 31, 2009, KKR recorded general, administrative and other expense of $81.0 million in relation to equity-based awards of KKR Group Partnership Units held through KKR Holdings to operating consultants. As of December 31, 2009 there was approximately $123.5 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 1.8 years, using the graded attribution method, which treats each vesting portion as a separate award.

(All Dollars are in Thousands Except Where Otherwise Noted)

9. EQUITY-BASED COMPENSATION (Continued)

A summary of the status of KKR's equity-based awards granted to KKR principals and operating consultants from October 1, 2009 to December 31, 2009 are presented below:

Unvested Units	Units	Weighted Average Grant Date Fair Value
Balance, October 1, 2009	—	
Granted	433,723,898	$8.78
Vested(a)	(265,851,297)	$9.35
Exchanged	—	
Forfeited	—	
Balance, December 31, 2009	167,872,601	$7.87

(a) All of the units granted to Henry Kravis and George Roberts were vested immediately upon grant and are included in this number.

Unvested units in KKR Holdings as of December 31, 2009 are expected to vest over a weighted average vesting period of 4.6 years.

REU 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. Such units were granted and will be funded by KKR Holdings and will not dilute KKR Guernsey's interests in the KKR Group Partnerships. The vesting of these equity units is contingent on KKR Guernsey's (or a successor thereto) units becoming listed and traded on the New York Stock Exchange or another U.S. exchange. As of December 31, 2009, KKR has determined that it is not probable that the contingency will occur. Accordingly, no compensation expense has been recorded related to these restricted equity units for the year ended December 31, 2009.

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, which are expected to be determined each annual period, 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 estimates of amounts expected to be paid. Compensation charges relating to this discretionary allocation amounted to $28.5 million for the year ended December 31, 2009.

(All Dollars are in Thousands Except Where Otherwise Noted)

10. RELATED PARTY TRANSACTIONS

Due from Affiliates consists of:

	December 31, 2009	December 31, 2008
Due from Principals(a)	$ 77,075	$ —
Due from Related Entities	20,778	12,287
Due from Portfolio Companies	18,067	14,337
Due from Unconsolidated Funds	8,068	3,265
	$123,988	$29,889

(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 12 "Commitments and Contingencies."

Due to Affiliates consists of:

	December 31, 2009	December 31, 2008
Due to KKR Holdings, L.P.	$87,741	$ —

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 exists at the KKR Funds is reflected in Due to Affiliates. In prior periods, 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 New York Stock Exchange 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, 2009 and 2008, KFN had consolidated assets of $10.3 billion and $12.5 billion, respectively, and shareholders' equity of $1.2 billion and $0.7 billion, respectively. Shares of KFN held by KKR are accounted for as trading securities (see Note 2, "Summary of Significant Accounting Policies—Management fees received from consolidated and unconsolidated funds") and represented approximately 0.7% of KFN's outstanding shares as of December 31, 2009 and 2008, respectively. If KKR were to exercise all of its outstanding vested options, KKR's ownership interest in KFN would be approximately 1.1% and 1.2% of KFN's outstanding shares as of December 31, 2009 and 2008, respectively.

10. RELATED PARTY TRANSACTIONS (Continued)

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 $46.7 million, $25.1 million and $173.8 million for the years ended December 31, 2009, 2008, and 2007 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 paid $6,903, $7,851 and $6,339 for the use of these aircraft during the years ended December 31, 2009, 2008 and 2007, 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 $5,704, $2,426 and $2,073 for the years ended December 31, 2009, 2008 and 2007, respectively.

11. 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

KKR's Private Markets segment is comprised of its global private equity business, which manages and sponsors a group of investment funds and vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions.

Public Markets

KKR's Public Markets segment is comprised primarily of its fixed income businesses which manage capital in liquid credit strategies, such as leveraged loans and high yield bonds, and less liquid credit products such as mezzanine debt and capital solutions investments. KKR's capital solutions effort focuses on special situations investing, including rescue financing, distressed investing, debtor-in-possession financing and exit financing.

KKR executes these investment strategies through a specialty finance company and a number of investment funds, structured finance vehicles and separately managed accounts.

11. SEGMENT REPORTING (Continued)

Capital Markets and Principal Activities

KKR's Capital Markets and Principal Activities segment combines the assets KKR acquired in the Combination Transaction with its 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 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; (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 Group Holdings and KKR Holdings and as such represents KKR's business in total. Group Holdings' allocable portion of FRE and ENI would be calculated as approximately 30% of the amounts presented less applicable income taxes. 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 the years ended December 31, 2008 and 2007 to reflect these changes, where applicable. None of these changes impacted economic net income.

(All Dollars are in Thousands Except Where Otherwise Noted)

11. SEGMENT REPORTING (Continued)

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

	Year Ended December 31, 2009			
	Private Markets Segment	Public Markets Segment	Capital Markets and Principal Activities Segment	Total Reportable Segments
Fees				
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	72,255	—	19,573	91,828
Fee Credits(1)	(73,900)	—	—	(73,900)
Net monitoring and transaction fees	156,598	—	19,573	176,171
Total fees	571,805	55,226	19,573	646,604
Expenses				
Employee compensation and benefits	155,546	24,086	1,710	181,342
Other operating expenses	173,342	20,586	2,036	195,964
Total expenses	328,888	44,672	3,746	377,306
Fee related earnings	242,917	10,554	15,827	269,298
Investment income (loss)				
Gross carried interest	826,193	—	—	826,193
Less: allocation to KKR carry pool(2)	(57,971)	—	—	(57,971)
Less: management fee refunds(3)	(22,720)	—	—	(22,720)
Net carried interest	745,502	—	—	745,502
Other investment income (loss)	125,284	(5,260)	352,923	472,947
Total investment income (loss)	870,786	(5,260)	352,923	1,218,449
Income (loss) before noncontrolling interests in income of consolidated entities	1,113,703	5,294	368,750	1,487,747
Income (loss) attributable to noncontrolling interests(4)	565	15	513	1,093
Economic net income (loss)	$1,113,138	$ 5,279	$ 368,237	$1,486,654
Total Assets	$ 362,128	$62,408	$4,660,132	$5,084,668
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

(All Dollars are in Thousands Except Where Otherwise Noted)

11. SEGMENT REPORTING (Continued)

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. As of December 31, 2009, the amount subject to management fee refunds, which will reduce carried interest in future periods, totaled $148.9 million.

(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 an aggregate 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, 2009:

	As of and for the Year Ended, December 31, 2009		
	Total Reportable Segments	Adjustments	Consolidated and Combined
Fees(a)	$ 646,604	$ (315,333)	$ 331,271
Expenses(b)	$ 377,306	$ 818,404	$ 1,195,710
Investment income (loss)(c)	$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(d)	$5,084,668	$25,136,443	$30,221,111
Partners' Capital(e)	$4,152,884	$23,208,597	$27,361,481

(a) The fees adjustment represents the elimination of intercompany transactions upon consolidation of the KKR Funds and other adjustments necessary to reconcile from segment reporting measures to consolidated financial results.

(b) The expenses adjustment primarily represents the inclusion of non-cash equity based compensation, the reflection of allocations to carry pool and other operating expenses associated with the Transactions in consolidated expenses and the inclusion of certain operating expenses upon consolidation of the KKR Funds.

(c) The investment income (loss) adjustment primarily represents the inclusion of investment income attributable to noncontrolling interests upon consolidation of the KKR Funds.

(All Dollars are in Thousands Except Where Otherwise Noted)

11. SEGMENT REPORTING (Continued)

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

(e) The partners' capital adjustment primarily represents the exclusion of the impact of income taxes, charges relating to the amortization of intangible assets, non-cash equity based payments and allocations of equity to KKR Holdings and other noncontrolling interest holders.

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

	Year Ended December 31, 2009
Economic net income (loss)	$1,486,654
Income taxes	(36,998)
Amortization of intangibles	(3,788)
Costs relating to the Transactions(a)	(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 (loss) attributable to Group Holdings	$ 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 statement of operations, this charge is included in general, administrative and other expenses.

(All Dollars are in Thousands Except Where Otherwise Noted)

11. SEGMENT REPORTING (Continued)

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

	Year Ended December 31, 2008		
	Private Markets Segment	Public Markets Segment	Total Reportable Segments
Fees			
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 transaction fees:			
Monitoring fees	97,256	—	97,256
Transaction fees	41,307	—	41,307
Fee Credits(1)	(12,698)	—	(12,698)
Net monitoring and transaction fees	125,865	—	125,865
Total fees	522,259	59,342	581,601
Expenses			
Employee compensation and benefits	142,298	20,566	162,864
Other operating expenses	218,512	6,200	224,712
Total expenses	360,810	26,766	387,576
Fee related earnings	161,449	32,576	194,025
Investment income (loss)			
Gross carried interest	(1,197,387)	—	(1,197,387)
Less: allocation to KKR carry pool(2)	8,156	—	8,156
Less: management fee refunds(3)	29,611	—	29,611
Net carried interest	(1,159,620)	—	(1,159,620)
Other investment income (loss)	(234,182)	10,687	(223,495)
Total investment income (loss)	(1,393,802)	10,687	(1,383,115)
Income (loss) before noncontrolling interests in income of consolidated entities	(1,232,353)	43,263	(1,189,090)
Income (loss) attributable to noncontrolling interests(4)	(37)	6,421	6,384
Economic net income (loss)	$(1,232,316)	$36,842	$(1,195,474)
Total Assets	$ 311,302	$52,256	$ 363,558
Partners' Capital	$ 108,223	$45,867	$ 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

(All Dollars are in Thousands Except Where Otherwise Noted)

11. SEGMENT REPORTING (Continued)

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 in conjunction the amount of the management fee refund would be reduced resulting in income being recognized during the period.

(4) Represents economic interests (i) in the management company of our Public Markets segment prior to the acquisition of all noncontrolling interests on May 30, 2008 and (ii) that allocate to a third party investor an aggregate of 2% of the equity in KKR’s capital markets business.

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

	As of and for the Year Ended, December 31, 2008		
	Total Reportable Segments	Adjustments	Consolidated and Combined
Fees(a)	$ 581,601	$ (346,420)	$ 235,181
Expenses(b)	$ 387,576	$ 30,812	$ 418,388
Investment income (loss)(c)	$(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)
Total assets(d)	$ 363,558	$ 22,077,472	$ 22,441,030
Partners’ Capital(e)	$ 154,090	$ 19,696,267	$ 19,850,357

(a) The fees adjustment represents the elimination of intercompany transactions upon consolidation of the KKR Funds and other adjustments necessary to reconcile from segment reporting measures to financial results.

(b) The expenses adjustment primarily represents the inclusion of certain operating expenses upon consolidation of the KKR Funds and the reflection of allocations to carry pool in consolidated expenses.

(c) The investment income (loss) adjustment primarily represents the inclusion of investment income attributable to noncontrolling interests upon consolidation of the KKR Funds.

11. SEGMENT REPORTING (Continued)

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

(e) The partners' capital adjustment reflects the net adjustments for fees, expenses, investment income (loss) and income (loss) attributable to noncontrolling interests.

The reconciliation of economic net income (loss) to net income (loss) attributable to Group Holdings 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 (loss) attributable to Group Holdings	$(1,204,471)

(All Dollars are in Thousands Except Where Otherwise Noted)

11. SEGMENT REPORTING (Continued)

The following table presents the financial data for KKR's reportable segments as of and for the year ended December 31, 2007:

	Year Ended December 31, 2007		
	Private Markets Segment	Public Markets Segment	Total Reportable Segments
Fees			
Management and incentive fees:			
Management fees	$ 258,325	$53,183	$ 311,508
Incentive fees	—	23,335	23,335
Management and incentive fees	258,325	76,518	334,843
Monitoring and transaction fees:			
Monitoring fees	70,370	—	70,370
Transaction fees	683,100	—	683,100
Fee Credits(1)	(230,640)	—	(230,640)
Net monitoring and transaction fees	522,830	—	522,830
Total fees	781,155	76,518	857,673
Expenses			
Employee compensation and benefits	177,957	23,518	201,475
Other operating expenses	186,811	4,928	191,739
Total expenses	364,768	28,446	393,214
Fee related earnings	416,387	48,072	464,459
Investment income (loss)			
Gross carried interest	305,656	—	305,656
Less: allocation to KKR carry pool(2)	(18,176)	—	(18,176)
Less: management fee refunds(3)	(26,798)	—	(26,798)
Net carried interest	260,682	—	260,682
Other investment income (loss)	97,945	15,006	112,951
Total investment income (loss)	358,627	15,006	373,633
Income (loss) before noncontrolling interests in income of consolidated entities	775,014	63,078	838,092
Income (loss) attributable to noncontrolling interests(4)	—	23,264	23,264
Economic net income (loss)	$ 775,014	$39,814	$ 814,828
Total Assets	$1,933,741	$30,961	$1,964,702
Total Partners' Capital	$1,499,321	$18,025	$1,517,346

(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

(All Dollars are in Thousands Except Where Otherwise Noted)

11. SEGMENT REPORTING (Continued)

portfolio companies 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.

(4) Represents economic interests in the management company of our Public Markets segment.

The following table reconciles KKR's total reportable segments to the consolidated financial statements as of and for the year ended December 31, 2007:

	As of and for the Year Ended, December 31, 2007		
	Total Reportable Segments	Adjustments	Consolidated and Combined
Fees(a)	$ 857,673	$ 4,592	$ 862,265
Expenses(b)	$ 393,214	$ 47,696	$ 440,910
Investment income (loss)(c)	$ 373,633	$ 1,618,150	$ 1,991,783
Income (loss) before taxes	$ 838,092	$ 1,575,046	$ 2,413,138
Income (loss) attributable to noncontrolling interests	$ 23,264	$ 1,575,046	$ 1,598,310
Total assets(d)	$1,964,702	$30,878,094	$32,842,796
Partners' Capital(e)	$1,517,346	$28,749,814	$30,267,160

(a) The fees adjustment represents the elimination of intercompany transactions upon consolidation of the KKR Funds and other adjustments necessary to reconcile from segment reporting measures to consolidated financial results. In periods where the fee credits attributable to KKR's consolidated funds exceeds the amount of management fees earned from its consolidated funds, a positive adjustment will be required to eliminate this intercompany transaction and reconcile to KKR's consolidated fees.

(b) The expenses adjustment primarily represents the inclusion of certain operating expenses upon consolidation of the KKR Funds and the reflection of allocations to carry pool in consolidated expenses.

(c) The investment income (loss) adjustment primarily represents the inclusion of investment income attributable to noncontrolling interests upon consolidation of the KKR Funds.

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

(All Dollars are in Thousands Except Where Otherwise Noted)

11. SEGMENT REPORTING (Continued)

(e) The partners' capital adjustment reflects the net adjustments for fees, expenses, investment income (loss) and income (loss) attributable to noncontrolling interests.

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

	Year Ended December 31, 2007
Economic net income (loss)	$814,828
Income taxes	(12,064)
Net income (loss) attributable to Group Holdings	$802,764

12. 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 strategy. KKR is in compliance with all of its debt covenants as of December 31, 2009.

Investment Commitments

As of December 31, 2009, KKR had unfunded commitments to its private equity and other investment funds of $1,272.3 million.

Non-cancelable Operating Leases

KKR leases office space under non-cancelable lease agreements in New York, Menlo Park, Houston, San Francisco, Washington, D.C., London, Paris, Beijing, Hong Kong, Tokyo, Sydney, and Mumbai. 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, 2009 the approximate aggregate minimum future lease payments, net of sublease income, required on the operating leases are as follows:

Year Ending December 31,

	Amount
2010	$ 30,430
2011	28,598
2012	23,977
2013	23,893
2014	24,003
Thereafter	93,926
Total minimum payments required	$224,827

12. COMMITMENTS AND CONTINGENCIES (Continued)

Rent expense recognized on a straight-line basis for the years ended December 31, 2009, 2008 and 2007 was $31,752, $27,665 and $19,820, respectively.

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, 2009, the amount of carried interest KKR principals have received, that is subject to this clawback provision was $716.2 million, assuming that all applicable private equity funds were liquidated at no value, a possibility which KKR believes to be remote. Had the investments in such funds been liquidated at their December 31, 2009 fair values, the clawback obligation would have been $84.9 million of which $77.1 million is due from affiliates and $7.8 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, 2009, KKR has recorded a receivable of $77.1 million within Due from Affiliates for the amount of the clawback obligation given it 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.

Carry distributions arising subsequent to the Transactions will be allocated to Group Holdings, 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, 2009, KKR's contingent repayment obligation would have been approximately $93.6 million. If the vehicles were

12. COMMITMENTS AND CONTINGENCIES (Continued)

liquidated at zero value, the contingent repayment obligation would have been approximately $1,182.7 million as of December 31, 2009, a possibility that KKR believes to be remote.

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 the Company's business. The Company believes that the ultimate liability arising from such proceedings, lawsuits and claims, if any, will not have a material effect on the KKR's financial condition, results of operations, or cash flows.

In August 1999, KKR and certain of KKR's current and former personnel were named as defendants in an action alleging breach of fiduciary duty and conspiracy in connection with the acquisition of Bruno's Inc. ("Bruno's"), one of our former portfolio companies, in 1995. 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 August 2009, the action was consolidated with a similar action brought against the underwriters of the August 1995 subordinated notes offering. In September 2009, KKR and the other named defendants moved to dismiss the action, which motion remains pending.

In 2005, KKR and certain of KKR's current and former personnel were named as defendants in now-consolidated shareholder derivative actions relating to Primedia Inc. ("Primedia"), a portfolio company no longer included in the financial statements. 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. Briefing in connection with the special litigation committee motion to dismiss the actions was completed in January 2010. In November 2009, plaintiffs filed a motion to amend the complaint. These motions remain pending.

In December 2007, KKR, along with 15 other private equity firms and investment banks, were named as defendants in a purported class action complaint 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

12. COMMITMENTS AND CONTINGENCIES (Continued)

leveraged buyouts. The 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 amended complaint also includes five purported sub-classes of plaintiffs seeking damages and/or with respect to five of the nine challenged transactions.

On August 7, 2008, KFN, the members of the KFN's board of directors and certain of its current and 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"). On March 13, 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 current chief financial officer (the "KFN Individual Defendants," and, together with KFN, "KFN Defendants"). The amended complaint alleges that KFN's April 2, 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 "1933 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. On April 27, 2009, the KFN Defendants filed a motion to dismiss the amended complaint for failure to state a claim under the Securities Act. This motion remains pending.

On August 15, 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 2, 2007 Registration Statement with alleged material misstatements and omissions. 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.

On March 23, 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 2, 2007 registration statement with alleged material misstatements and omissions. 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.

KKR believes that each of these actions is without merit and intend to defend them vigorously.

12. COMMITMENTS AND CONTINGENCIES (Continued)

In September 2006 and March 2009, we 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. We are fully cooperating with the DOJ's investigation.

In addition, in December 2009, our subsidiary Kohlberg Kravis Roberts & Co. (Fixed Income) LLC received a request from the Securities and Exchange Commission ("SEC") for information in connection with its examination of certain investment advisors in order to review trading procedures and valuation practices in the collateral pools of structured credit products. KKR is fully cooperating with the SEC's examination.

Moreover, in the ordinary course of business, we are and can be both the defendant and the plaintiff in numerous actions with respect to bankruptcy, insolvency and other types of proceedings. Such lawsuits may involve claims that adversely affect the value of certain investments owned by our funds.

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. As of December 31, 2009, the performance of the Master Fund was lower than the defined benchmarks; however, the Master Fund was able to meet its defined liquidity requirements.

13. SUBSEQUENT EVENTS

KKR has evaluated and disclosed below significant events that have occurred subsequent to December 31, 2009 through March 10, 2010, which was the date our financial statements were issued in connection with the issuance of KKR Guernsey's financial statements.

Investments

Subsequent to December 31, 2009, the KKR Funds committed approximately $1.2 billion to 4 private equity investments. One of these investments, amounting to $22.2 million, has since closed and none of these investments are expected to exceed 5% of the net assets of consolidated private equity investments.

Subsequent to December 31, 2009, KKR received net proceeds of $392.1 million related to the redemption of its investment in Sun Microsystems and a dividend received on its investment in HCA. Those proceeds, plus other available cash on hand, were used to make repayments on debt obligations of $429.1 million.

Distribution

On February 24, 2010 it was announced that a cash distribution of $0.08 per KKR Guernsey unit, subject to applicable withholding taxes, that will be payable on or about March 25, 2010 to KKR Guernsey unitholders of record as of the close of business on March 11, 2010. KKR Group Holdings will be entitled to its pro rata share of the distribution from the KKR Group Partnerships.