

KKR & Co. L.P.  
Form 10-K  
February 27, 2012

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**Form 10-K**

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2011

Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-34820

**KKR & CO. L.P.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other Jurisdiction of  
Incorporation or Organization)

**26-0426107**  
(I.R.S. Employer  
Identification Number)

**9 West 57<sup>th</sup> Street, Suite 4200  
New York, New York 10019  
Telephone: (212) 750-8300**

(Address, zip code, and telephone number, including  
area code, of registrant's principal executive office.)

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**  
Common units representing limited  
partner interests

**Name of each exchange on which registered**  
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the common units of the registrant held by non-affiliates as of June 30, 2011, was approximately \$3.6 billion.

As of February 23, 2012, there were 231,698,206 common units of the registrant outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

None

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**KKR & CO. L.P.**  
**FORM 10-K**  
**For the Year Ended December 31, 2011**  
**INDEX**

	<b>Page No.</b>
<u>PART I</u>	
<u>Item 1</u> <u>Business</u>	<u>1</u>
<u>Item 1A</u> <u>Risk Factors</u>	<u>25</u>
<u>Item 1B</u> <u>Unresolved Staff Comments</u>	<u>77</u>
<u>Item 2</u> <u>Properties</u>	<u>77</u>
<u>Item 3</u> <u>Legal Proceedings</u>	<u>77</u>
<u>Item 4</u> <u>Mine Safety Disclosures</u>	<u>77</u>
<u>PART II</u>	
<u>Item 5</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>78</u>
<u>Item 6</u> <u>Selected Financial Data</u>	<u>80</u>
<u>Item 7</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>82</u>
<u>Item 7A</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>129</u>
<u>Item 8</u> <u>Financial Statements and Supplementary Data</u>	<u>131</u>
<u>Item 9</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>205</u>
<u>Item 9A</u> <u>Controls and Procedures</u>	<u>205</u>
<u>Item 9B</u> <u>Other Information</u>	<u>206</u>
<u>PART III</u>	
<u>Item 10</u> <u>Directors, Executive Officers and Corporate Governance</u>	<u>206</u>
<u>Item 11</u> <u>Executive Compensation</u>	<u>212</u>
<u>Item 12</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>226</u>
<u>Item 13</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>230</u>
<u>Item 14</u> <u>Principal Accounting Fees and Services</u>	<u>238</u>
<u>PART IV</u>	
<u>Item 15</u> <u>Exhibits, Financial Statement Schedules</u>	<u>239</u>
<u>SIGNATURES</u>	<u>242</u>

Table of Contents

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as "outlook," "believe," "expect," "potential," "continue," "may," "should," "seek," "approximately," "predict," "intend," "will," "plan," "estimate," "anticipate" or the negative version of these words or other comparable words. Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled "Risk Factors" in this report. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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In this report, references to "KKR," "we," "us," "our" and "our partnership" refer to KKR & Co. L.P. and its consolidated subsidiaries. Prior to KKR & Co. L.P. becoming listed on the New York Stock Exchange ("NYSE") on July 15, 2010, KKR Group Holdings L.P. ("Group Holdings") consolidated the financial results of the KKR Group Partnerships (as defined below) and their consolidated subsidiaries.

References to "our Managing Partner" are to KKR Management LLC, our general partner; references to "KKR Guernsey" are to KKR & Co. (Guernsey) L.P. (f/k/a KKR Private Equity Investors, L.P. or "KPE"); references to the "Combined Business" of KKR refer to the business of KKR that resulted from the Transactions (as defined below); references to the "KKR Group Partnerships" are to KKR Management Holdings L.P. and KKR Fund Holdings L.P., which became holding companies for the Combined Business on October 1, 2009; and references to the "KPE Investment Partnership" are to KKR PEI Investments, L.P., a lower tier partnership through which KPE made all of its investments prior to October 1, 2009.

Unless otherwise indicated, references to equity interests in the Combined Business, or to percentage interests in the Combined Business, reflect the aggregate equity of the KKR Group Partnerships and are net of amounts that have been allocated to our principals in respect of the carried interest from the Combined Business as part of our "carry pool" and certain minority interests in our business that were not acquired by the KKR Group Partnerships in connection with the Transactions. References to our "principals" are to our senior employees and non-employee operating consultants who hold interests in the Combined Business through KKR Holdings L.P., which we refer to as "KKR Holdings" and references to our "senior principals" are to principals who also hold interests in our Managing Partner entitling them to vote for the election of its directors.

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

Table of Contents

business, and our financial information for periods subsequent to the Transactions is, for accounting purposes, based on a group consisting of KKR & Co. L.P. and its consolidated subsidiaries.

In this report, the term "assets under management," or "AUM", represents the assets from which KKR is entitled to receive fees or a carried interest and general partner capital. We believe this measure is useful to investors as it provides additional insight into KKR's capital raising activities and the overall activity in its investment funds and vehicles. KKR calculates the amount of AUM as of any date as the sum of: (i) the fair value of the investments of KKR's investment funds plus uncalled capital commitments from these funds; (ii) the fair value of investments in KKR's co-investment vehicles; (iii) the net asset value of certain of KKR's fixed income products; (iv) the value of outstanding structured finance vehicles and (v) the fair value of other assets managed by KKR. KKR's definition of AUM is not based on the definitions of AUM that may be set forth in agreements governing the investment funds, vehicles or accounts that it manages and is not calculated pursuant to any regulatory definitions.

In this report, the term "fee paying assets under management," or "FPAUM", represents only those assets under management from which KKR receives fees. We believe this measure is useful to investors as it provides additional insight into the capital base upon which KKR earns management fees. This relates to KKR's capital raising activities and the overall activity in its investment funds and vehicles, for only those funds and vehicles where KKR receives fees (i.e., excluding vehicles that receive only carried interest or general partner capital). FPAUM is the sum of all of the individual fee bases that are used to calculate KKR's fees and differs from AUM in the following respects: (i) assets from which KKR does not receive a fee are excluded (i.e., assets with respect to which it receives only carried interest); and (ii) certain assets, primarily in its private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments.

In this report, the term "fee related earnings," or "FRE", is comprised of segment operating revenues less segment operating expenses and is used by management as an alternative measurement of the operating earnings of KKR and its business segments before investment income. We believe this measure is useful to investors as it provides additional insight into the operating profitability of our fee generating management companies and capital markets businesses. 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 fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity charges and other non-cash compensation charges borne by KKR Holdings or incurred under the KKR & Co. L.P. 2010 Equity Incentive Plan; (vi) the exclusion of certain reimbursable expenses; and (vii) the exclusion of certain non-recurring items.

In this report, the term "economic net income (loss)," or "ENI", is a measure of profitability for KKR's reportable segments and is used by management as an alternative measurement of the operating and investment earnings of KKR and its business segments. We believe this measure is useful to investors as it provides additional insight into the overall profitability of KKR's businesses inclusive of investment income and carried interest. ENI is comprised of: (i) FRE; plus (ii) segment investment income (loss), 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 (loss) relating to noncontrolling interests; and (iii) the exclusion of income taxes.

You should note that our calculations of AUM, FPAUM, FRE, ENI and other financial measures may differ from the calculations of other investment managers and, as a result, our measurements of AUM, FPAUM, FRE, ENI and other financial measures may not be comparable to similar measures

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### Table of Contents

presented by other investment managers. For important information regarding these and other financial measures, please see "Management's Discussion and Analysis of Financial Condition & Results of Operations Segment Operating and Performance Measures."

References to "our funds" or "our vehicles" refer to the investment funds, vehicles and/or accounts advised, sponsored or managed by one or more subsidiaries of KKR, unless the context requires otherwise.

In this report, the term "GAAP" refers to generally accepted accounting principles in the United States.

Unless otherwise indicated, references in this report to our fully diluted common units outstanding, or to our common units outstanding on a fully diluted basis, reflect (i) actual common units outstanding, (ii) common units into which KKR Group Partnership Units not held by us are exchangeable pursuant to the terms of the exchange agreement described in this report and (iii) common units issuable pursuant to any equity awards actually issued under the KKR & Co. L.P. 2010 Equity Incentive Plan, which we refer to as our "Equity Incentive Plan," but do not reflect common units available for issuance pursuant to our Equity Incentive Plan for which grants have not yet been made.

Table of Contents

**PART I**

**ITEM 1. BUSINESS**

**Overview**

Led by Henry Kravis and George Roberts, we are a leading global investment firm with \$59.0 billion in AUM as of December 31, 2011 and a 35-year history of leadership, innovation and investment excellence. When our founders started our firm in 1976, they established the principles that guide our business approach today, including a patient and disciplined investment process; the alignment of our interests with those of our investors, portfolio companies and other stakeholders; and a focus on attracting world class talent.

Our business offers a broad range of investment management services to our investors and provides capital markets services to our firm, our portfolio companies and our third-party clients. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 200 private equity investments with a total transaction value in excess of \$465 billion. In recent years, we have grown our firm by expanding our geographical presence and building businesses in new areas, such as fixed income, equity strategies, capital markets, infrastructure, natural resources and real estate. Our new efforts build on our core principles and industry expertise, allowing us to leverage the intellectual capital and synergies in our businesses, and to capitalize on a broader range of the opportunities we source. Additionally, we have increased our focus on servicing our existing investors and have invested meaningfully in developing relationships with new investors.

We conduct our business with offices throughout the world, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

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

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

Table of Contents

**Our Firm**

***Global Operations***

With offices around the world, we have established ourselves as a leading global investment firm. We have multilingual and multicultural investment teams with local market knowledge and significant business, investment, and operational experience in the countries in which we invest. We believe that our global capabilities have helped us to raise capital, capture a greater number of investment opportunities, and assist our portfolio companies in their increasing reliance on global markets and sourcing, while enabling us to diversify our operations.

Though our operations span multiple continents and asset classes, our investment professionals are supported by an integrated infrastructure and operate under a common set of principles and business practices that are monitored by a variety of committees. The firm operates with a single culture that rewards investment discipline, creativity, determination, and patience and the sharing of information, resources, expertise, and best practices across offices and asset classes. When appropriate, we staff transactions across multiple offices and businesses in order to take advantage of the industry-specific expertise of our investment professionals, and we hold regular meetings in which investment professionals throughout our offices share their knowledge and experiences. We believe that the ability to draw on the local cultural fluency of our investment professionals while maintaining a centralized and integrated global infrastructure distinguishes us from other investment firms and has been a substantial contributing factor to our ability to raise funds, invest internationally, and expand our businesses.

***Committees***

Our investment processes are overseen by regional investment and portfolio management committees. Our investment committees are responsible for reviewing and approving all investments made by their business units, monitoring due diligence practices, and providing advice in connection with the structuring, negotiation, execution, and pricing of investments. Our portfolio management function is responsible for working with our investment professionals from the date on which an investment is made until the time it is exited in order to ensure that strategic and operational objectives are accomplished and that the performance of the investment is closely monitored.

**Our Segments**

**Private Markets**

Through our Private Markets segment, we manage and sponsor a group of private equity funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. We also manage and source investments in infrastructure, natural resources and real estate. These funds, vehicles and accounts are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC registered investment adviser. As of December 31, 2011, the segment had \$43.6 billion of AUM and our actively investing funds included geographically



Table of Contents

differentiated investment funds and vehicles with over \$10.1 billion of unused capital commitments, providing a significant source of capital that may be deployed globally.

**Private Markets Assets Under Management(1)**  
**(\$ in billions)**

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(1) For the years 2006 through 2008, assets under management are presented pro forma for the Combination Transaction, and therefore, exclude the net asset value of KPE and its former commitments to our investment funds.

(2) As of February 7, 2012, we have formally accepted subscriptions for over \$5.5 billion in capital commitments on our North America Fund XI; however, it will not contribute to AUM until we are entitled to receive fees or a carried interest in accordance with our definition of AUM and is not included in AUM for the year 2011.

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### Table of Contents

The table below presents information as of December 31, 2011 relating to our private equity funds and other Private Markets investment vehicles for which we have the ability to earn carried interest. This data does not reflect acquisitions or disposals of investments, changes in investment values or distributions occurring after December 31, 2011.

Private Markets	Investment Period		As of December 31, 2011						
	Commencement Date(1)	End Date(1)	Commitment (\$)	Uncalled Commitments	Percentage Committed by General Partner	Amount Invested	Realized	Remaining Cost(3)	Remaining Fair Value
(Amounts in millions, except percentages)									
<b>Private Equity Funds</b>									
China Growth Fund	11/2010	11/2016	\$ 1,010.0	\$ 767.4	1.0%	\$ 242.6	\$	\$ 242.6	\$ 331.3
E2 Investors (Annex Fund)	8/2009	11/2012	535.5	381.3	4.2%	154.2		154.2	230.4
European Fund III	3/2008	3/2014	5,902.9	3,216.3	4.6%	2,686.6		2,686.5	2,668.1
Asian Fund	7/2007	7/2013	3,983.2	1,230.0	2.5%	2,753.2	191.9	2,635.1	4,027.5
2006 Fund	9/2006	9/2012	17,642.2	1,821.3	2.1%	15,820.9	4,297.5	13,528.0	15,377.8
European Fund II	11/2005	10/2008	5,750.8		2.1%	5,750.8	1,554.1	4,654.1	3,665.0
Millennium Fund	12/2002	12/2008	6,000.0		2.5%	6,000.0	6,916.1	3,435.3	4,811.1
European Fund	12/1999	12/2005	3,085.4		3.2%	3,085.4	7,981.2	164.0	715.8
<b>Total Private Equity Funds</b>			<b>43,910.0</b>	<b>7,416.3</b>		<b>36,493.7</b>	<b>20,940.8</b>	<b>27,499.8</b>	<b>31,827.0</b>
Co-Investment Vehicles	Various	Various	2,240.7	335.2	Various	1,905.5	715.7	1,707.7	2,346.2
<b>Total Private Equity</b>			<b>46,150.7</b>	<b>7,751.5</b>		<b>38,399.2</b>	<b>21,656.5</b>	<b>29,207.5</b>	<b>34,173.2</b>
<b>Energy &amp; Infrastructure</b>									
Natural Resources	Various	Various	1,094.7	1,001.4	Various	93.3	14.4	88.4	59.8
Infrastructure	Various	Various	780.2	633.6	Various	146.6		146.6	139.5
Co-Investment Vehicles	Various	Various	1,863.3	683.8	Various	1,179.5	68.8	1,179.5	1,331.6
<b>Energy &amp; Infrastructure Total</b>			<b>3,738.2</b>	<b>2,318.8</b>		<b>1,419.4</b>	<b>83.2</b>	<b>1,414.5</b>	<b>1,530.9</b>
<b>Private Markets Total</b>			<b>\$ 49,888.9</b>	<b>\$ 10,070.3</b>		<b>\$ 39,818.6</b>	<b>\$ 21,739.7</b>	<b>\$ 30,622.0</b>	<b>\$ 35,704.1</b>

- (1) The commencement date represents the date on which the general partner of the applicable fund commenced investment of the fund's capital for our private equity funds and the date of the first closing for our other Private Markets funds and investment vehicles. The end date represents the earlier of (i) the date on which the general partner of the applicable fund was or will be required by the fund's governing agreement to cease making investments on behalf of the fund, unless extended by a vote of the fund investors, or (ii) the date on which the last investment was made.
- (2) The commitment represents the aggregate capital commitments to the fund, including capital commitments by third-party fund investors and the general partner. Foreign currency commitments have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate that prevailed on December 31, 2011, in the case of unfunded commitments.
- (3) The remaining cost represents investors' initial investment reduced for any return of capital and realized gains from which the general partner did not receive a carried interest.

### Performance

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We take a long-term approach to Private Markets investing and measure the success of our investments over a period of years rather than months. Given the duration of these investments, the firm focuses on realized multiples of invested capital and IRRs when deploying capital in these transactions. We have nearly doubled the value of capital that we have invested in our Private Markets investment funds, turning \$53.2 billion of capital into \$103.2 billion of value from our inception in 1976 to December 31, 2011. Over the same time period, our realized and partially realized investments have grown from \$26.7 billion to \$78.7 billion.

Table of Contents

**Amount Invested and Total Value for  
Private Markets Investment Funds  
As of December 31, 2011**

*All Investments*

*Realized and Partially Realized Investments*

From our inception in 1976 through December 31, 2011, our investment funds with at least 36 months of investment activity generated a cumulative gross IRR of 25.7%, compared to the 11.3% gross IRR achieved by the S&P 500 Index over the same period, despite the cyclical and sometimes challenging environments in which we have operated. The S&P 500 Index is an unmanaged index and our returns assume reinvestment of distributions and do not reflect any fees or expenses.

The tables below present information as of December 31, 2011 relating to the historical performance of certain of our Private Markets investment vehicles since inception, which we believe illustrates the benefits of our investment approach. The information presented under Total Investments includes all of the investments made by the specified investment vehicle, while the information presented under Realized/Partially Realized Investments includes only those investments for which realized proceeds, excluding current income like dividends and interest, are a material portion of invested capital. This data does not reflect additional capital raised since December 31, 2011 or

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Table of Contents

acquisitions or disposals of investments, changes in investment values or distributions occurring after that date. Past performance is not a guarantee of future results.

Private Markets Investment Funds	Amount		Fair Value of Investments			Total Value	Gross IRR*	Net IRR*	Multiple of Invested Capital**
	Commitment	Invested	Realized	Unrealized					
(\$ in Millions)									
<b>Total Investments</b>									
<i>Legacy Funds(1)</i>									
1976	\$ 31.4	\$ 31.4	\$ 537.2	\$	\$ 537.2	39.5%	35.5%	17.1	
1980	356.8	356.8	1,827.8		1,827.8	29.0%	25.8%	5.1	
1982	327.6	327.6	1,290.7		1,290.7	48.1%	39.2%	3.9	
1984	1,000.0	1,000.0	5,963.5		5,963.5	34.5%	28.9%	6.0	
1986	671.8	671.8	9,080.7		9,080.7	34.4%	28.9%	13.5	
1987	6,129.6	6,129.6	14,949.2		14,949.2	12.1%	8.9%	2.4	
1993	1,945.7	1,945.7	4,143.3		4,143.3	23.6%	16.8%	2.1	
1996	6,011.6	6,011.6	12,476.6		12,476.6	18.0%	13.3%	2.1	
<i>Included Funds</i>									
European Fund (1999)(2)	3,085.4	3,085.4	7,981.2	715.8	8,697.0	27.0%	20.3%	2.8	
Millennium Fund (2002)	6,000.0	6,000.0	6,916.1	4,811.1	11,727.2	22.8%	16.3%	2.0	
European Fund II (2005)(2)	5,750.8	5,750.8	1,554.1	3,665.0	5,219.1	(2.2)%	(2.9)%	0.9	
2006 Fund (2006)	17,642.2	15,820.9	4,297.5	15,377.8	19,675.3	6.7%	4.4%	1.2	
Asian Fund (2007)	3,983.2	2,753.2	191.9	4,027.5	4,219.4	19.4%	12.0%	1.5	
European Fund III (2008)(2)	5,902.9	2,686.6		2,668.1	2,668.1	(0.4)%	(6.5)%	1.0	
E2 Investors (Annex Fund) (2009)(2)(3)	535.5	154.2		230.4	230.4	N/A	N/A	N/A	
China Growth Fund (2010)(3)	1,010.0	242.6		331.3	331.3	N/A	N/A	N/A	
Natural Resources (2010)(3)	1,094.7	93.3	14.4	59.8	74.2	N/A	N/A	N/A	
Infrastructure (2010)(3)	780.2	146.6		139.5	139.5	N/A	N/A	N/A	
<b>All Funds</b>	<b>\$ 62,259.4</b>	<b>\$ 53,208.1</b>	<b>\$ 71,224.2</b>	<b>\$ 32,026.3</b>	<b>\$ 103,250.5</b>	<b>25.7%</b>	<b>19.0%</b>	<b>1.9</b>	
<b>Realized/Partially Realized Investments(4)</b>									
<i>Legacy Funds(1)</i>									
1976	\$ 31.4	\$ 31.4	\$ 537.2	\$	\$ 537.2	39.5%	35.5%	17.1	
1980	356.8	356.8	1,827.8		1,827.8	29.0%	25.8%	5.1	
1982	327.6	327.6	1,290.7		1,290.7	48.1%	39.2%	3.9	
1984	1,000.0	1,000.0	5,963.5		5,963.5	34.6%	28.9%	6.0	
1986	671.8	671.8	9,080.7		9,080.7	34.4%	28.9%	13.5	
1987	6,129.6	6,129.6	14,949.2		14,949.2	12.1%	8.9%	2.4	
1993	1,945.7	1,945.7	4,143.3		4,143.3	23.6%	16.8%	2.1	
1996	6,011.6	5,968.5	12,476.6		12,476.6	18.2%	14.8%	2.1	
<i>Included Funds</i>									
European Fund (1999)(2)	3,085.4	2,681.1	7,981.2	715.8	8,697.0	29.8%	26.0%	3.2	
Millennium Fund (2002)	6,000.0	3,404.0	6,597.5	1,624.6	8,222.1	43.9%	33.4%	2.4	
European Fund II (2005)(2)	5,750.8	1,567.4	1,415.9	1,235.9	2,651.8	12.7%	10.9%	1.7	
2006 Fund (2006)	17,642.2	2,195.9	4,287.3	3,814.8	8,102.1	37.7%	33.9%	3.7	
Asian Fund (2007)	3,983.2	411.7	191.9	591.3	783.2	24.5%	20.7%	1.9	
European Fund III (2008)(2)	5,902.9								
E2 Investors (Annex Fund) (2009)(2)(3)	535.5								
China Growth Fund (2010)(3)	1,010.0								
Natural Resources (2010)(3)	1,094.7								
Infrastructure (2010)(3)	780.2								

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*All Realized/Partially Realized  
Investments*

\$ 62,259.4 \$ 26,691.5 \$ 70,742.8 \$ 7,982.4 \$ 78,725.2 26.2% 21.4% 2.9

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- (1) These funds were not contributed to the Combined Business in connection with the Transactions.
- (2) The capital commitments of the European Fund, the European Fund II, the European Fund III and the Annex Fund include euro-denominated commitments of €196.5 million, €2,597.2 million, €2,788.8 million and

Table of Contents

€165.5 million, respectively. Such amounts have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate prevailing on December 31, 2011 in the case of unfunded commitments.

- (3) The gross IRR, net IRR and multiple of invested capital are calculated for our investment funds that have invested for at least 36 months prior to December 31, 2011. None of the Annex Fund, the China Growth Fund, Natural Resources, or Infrastructure have invested for at least 36 months as of December 31, 2011. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to those funds.
- (4) Investments are considered partially realized when realized proceeds, excluding current income like dividends and interest, are a material portion of invested capital. None of the European Fund III, Annex Fund, China Growth Fund, Natural Resources or Infrastructure have realized a material portion of invested capital. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to the investments of those funds.

\*

IRR measures the aggregate annual compounded returns generated by a fund's investments over a holding period. Net IRRs presented under Total Investments are calculated after giving effect to the allocation of realized and unrealized carried interest and the payment of any applicable management fees. Net IRRs presented under Realized/Partially Realized Investments are calculated after giving effect to the allocation of realized and unrealized carried interest, but before payment of any applicable management fees as management fees are applied to funds, not investments. Gross IRRs are calculated before giving effect to the allocation of carried interest and the payment of any applicable management fees.

\*\*

The multiples of invested capital measure the aggregate returns generated by a fund's investments in absolute terms. Each multiple of invested capital is calculated by adding together the total realized and unrealized values of a fund's investments and dividing by the total amount of capital invested by the fund. Such amounts do not give effect to the allocation of any realized and unrealized returns on a fund's investments to the fund's general partner pursuant to a carried interest or the payment of any applicable management fees.

For more information, see "Risk Factors Risks Related to the Assets We Manage The historical returns attributable to our funds, including those presented in this report, should not be considered as indicative of the future results of our funds or of our future results or of any returns on our common units."

***Private Equity***

We are a world leader in private equity, having raised 16 funds with approximately \$60.4 billion of capital commitments through December 31, 2011. We invest in industry-leading franchises and attract world-class management teams. Our investment approach leverages our capital base, sourcing advantage, global network and industry knowledge. It also leverages our sizeable team of operating consultants who work exclusively with our portfolio companies, as well as our senior advisors, many of whom are former chief executive officers and leaders of the business community.

***Portfolio***

The following charts present information concerning the amount of capital invested by private equity funds by geography and industry through December 31, 2011. We believe that this data illustrates the benefits of our business approach and our ability to source and invest in deals in multiple geographies and industries.

Table of Contents

**Dollars Invested by Geography  
(European Fund and Subsequent Funds  
including our Natural Resources  
and Infrastructure Funds  
as of December 31, 2011)**

**Dollars Invested by Industry  
(European Fund and Subsequent Funds  
including our Natural Resources  
and Infrastructure Funds  
as of December 31, 2011)**

Our current private equity portfolio held by our European Fund and subsequent funds consists of over 75 companies with more than \$200 billion of annual revenues and more than 900,000 employees worldwide. These companies are headquartered in 19 countries and operate in 17 general industries which take advantage of our broad and deep industry and operating expertise. Many of these companies are leading franchises with global operations, strong management teams and attractive growth prospects, which we believe will provide benefits through a broad range of business conditions.

*Investment Approach*

Our approach to making private equity investments focuses on achieving multiples of invested capital and attractive risk-adjusted IRRs by selecting high-quality investments that may be made at attractive prices, applying rigorous standards of due diligence when making investment decisions, implementing strategic and operational changes that drive growth and value creation in acquired businesses, carefully monitoring investments, and making informed decisions when developing investment exit strategies.

We believe that we have achieved a leading position in the private equity industry by applying a disciplined investment approach and by building strong partnerships with highly motivated management teams who put their own capital at risk. When making private equity investments, we seek out strong business franchises, attractive growth prospects, leading market positions, and the ability to generate attractive returns. We do not participate in "hostile" transactions that are not supported by a target company's board of directors.

*Sourcing and Selecting Investments*

We have access to significant opportunities for making private equity investments as a result of our sizeable capital base, global platform, and relationships with leading executives from major companies, commercial and investment banks, and other investment and advisory institutions. Members of our global network frequently contact us with new investment opportunities, including a substantial number of exclusive investment opportunities and opportunities that are made available to only a very limited number of other firms. We also proactively pursue business development strategies that are designed to generate deals internally based on the depth of our industry knowledge and our reputation as a leading financial sponsor.



Table of Contents

To enhance our ability to identify and consummate private equity investments, we have organized our investment professionals in industry-specific teams. Our industry teams work closely with our operating consultants and senior advisors to identify businesses that can be grown and improved. These teams conduct their own primary research, develop a list of industry themes and trends, identify companies and assets in need of operational improvement, and seek out businesses and assets that they believe will benefit from our involvement. They possess a detailed understanding of the economic drivers, opportunities for value creation, and strategies that can be designed and implemented to improve companies across the industries in which we invest.

*Due Diligence and the Investment Decision*

When an investment team determines that an investment proposal is worth consideration, the proposal is formally presented to an investment committee and the due diligence process commences if appropriate. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment and to prepare a framework that may be used from the date of an acquisition to drive operational improvement and value creation. When conducting due diligence, investment teams evaluate a number of important business, financial, tax, accounting, environmental, social, governance, legal and regulatory issues in order to determine whether an investment is suitable. In connection with the due diligence process, investment professionals spend significant amounts of time meeting with a company's management and operating personnel, visiting plants and facilities, and where appropriate, speaking with other stakeholders interested in and impacted by the investment in order to understand the opportunities and risks associated with the proposed investment. Our investment professionals also use the services of outside accountants, consultants, lawyers, investment banks, and industry experts as appropriate to assist them in this process. An investment committee monitors all due diligence practices and must approve an investment before it may be made.

*Building Successful and Competitive Businesses*

When investing in a portfolio company, we partner with world-class management teams to execute on our investment thesis, and we rigorously track performance through regular monitoring of detailed operational and financial metrics as well as appropriate environmental, social and governance issues. We have developed a global network of experienced managers and operating executives who assist the portfolio companies in making operational improvements and achieving growth. We augment these resources with operational guidance from operating consultants at KKR Capstone, senior advisors, and investment teams, and with "100-Day Plans" that focus the firm's efforts and drive our strategies. We emphasize efficient capital management, top-line growth, R&D spending, geographical expansion, cost optimization, and investment for the long-term.

*Realizing Investments*

We have developed substantial expertise for realizing private equity investments. From our inception through December 31, 2011, the firm has generated approximately \$71.2 billion of cash proceeds from the sale of our portfolio companies in initial public offerings and secondary offerings, dividends, and sales to strategic buyers. When exiting investments, our objective is to structure the exit in a manner that optimizes returns for investors and, in the case of publicly traded companies, minimizes the impact that the exit has on the trading price of the company's securities. We believe that our ability to successfully realize investments is attributable in part to the strength and discipline of our portfolio management committees and capital markets business, as well as the firm's longstanding relationships with corporate buyers and members of the investment banking and investing communities.

Table of Contents

*Private Equity Fund Structures*

The private equity funds that we sponsor and manage have finite lives and investment periods. Each fund is organized as a single partnership or a combination of separate domestic and overseas partnerships, and each partnership is controlled by a general partner. Private equity fund investors are limited partners who agree to contribute a specified amount of capital to the fund from time to time for use in qualifying investments during the investment period, which generally lasts up to six years depending on how quickly capital is deployed. Each private equity fund's general partner is generally entitled to a carried interest that allocates to it 20% of the net profits realized by the limited partners from the fund's investments. The terms on our newest private equity fund, the North America Fund XI, also include a performance hurdle which requires that we return 7%, compounded annually, to limited partners in the fund prior to receiving our 20% share of net profits realized by limited partners. Our earlier private equity funds do not include this term, although certain other funds such as the Natural Resources and Infrastructure Funds do have a performance hurdle.

We enter into management agreements with our private equity funds pursuant to which we receive management fees in exchange for providing the funds with management and other services. These management fees are calculated based on the amount of capital committed to a fund during the investment period and thereafter on the cost basis of the fund's investments, which causes the fees to be reduced over time as investments are liquidated. These management fees are paid by private equity fund investors, who generally contribute capital to the fund in order to allow the fund to pay the fees to us. Our funds generally require that management fees be returned to investors before a carried interest may be paid.

We also enter into monitoring agreements with our portfolio companies pursuant to which we receive periodic monitoring fees in exchange for providing them with management, consulting, and other services, and we typically receive transaction fees from portfolio companies for providing them with financial, advisory and other services in connection with specific transactions. In some cases, we may be entitled to other fees that are paid by an investment target upon closing a transaction or when a potential investment is not consummated. Our private equity fund agreements typically require us to share 80% of any monitoring, transaction and other fees that are allocable to a fund (after reduction for expenses incurred allocable to a fund from unconsummated transactions) with fund investors.

In addition, the agreements governing our private equity funds enable investors in those funds to reduce their capital commitments available for further investments, on an investor-by-investor basis, in the event certain "key persons" (for example, both of Messrs. Kravis and Roberts, and, in the case of certain geographically or product focused funds, one or more of the executives focused on such funds) cease to be actively involved in the management of the fund. While these provisions do not allow investors to withdraw capital that has been invested or cause a fund to terminate, the occurrence of a "key man" event could cause disruption in our business, reduce the amount of capital that we have available for future investments, and make it more challenging to raise additional capital in the future.

To the extent investors in our private equity funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our private equity funds, our principals, or our affiliates under the federal securities laws and state laws. While the general partners and investment advisers to our private equity funds, including their directors, officers, other employees, and affiliates, are generally indemnified by the private equity funds to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our private equity funds, such indemnity does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

Because private equity fund investors typically are unwilling to invest their capital in a fund unless the fund's manager also invests its own capital in the fund's investments, our private equity fund documents generally require the general partners of the funds to make minimum capital commitments

Table of Contents

to the funds. The amounts of these commitments, which are negotiated by fund investors, generally range from 2% to 4% of a fund's total capital commitments at final closing. When investments are made, the general partner contributes capital to the fund based on its fund commitment percentage and acquires a capital interest in the investment that is not subject to a carried interest or management fees. These capital contributions were funded with cash from operations that otherwise would be distributed to our principals. Subsequent to the Transactions, these general partner commitments are typically made through our Capital Markets and Principal Activities segment.

*Other Private Equity Investment Vehicles*

**E2 Investors (Annex Fund).** We established the Annex Fund in 2009 to enable investors in the European Fund II and the Millennium Fund to make additional investments in portfolio companies of the European Fund II, which had already been fully invested. This fund has several features that distinguish it from our other private equity funds, including: (i) it does not pay a management fee to us; (ii) its general partner is only entitled to a carried interest after netting any losses, costs, and expenses relating to European Fund II and certain Millennium Fund investments from the profits of the Annex Fund investments; and (iii) no transaction or incremental monitoring fees are charged in connection with investments in which the Annex Fund participates. In addition, certain investors transferred a portion of their European Fund III commitments to the Annex Fund, which proportionately reduced the commitments available to the European Fund III and the overall amount of management fees payable by the European Fund III to us.

**Other Private Equity Products.** The amount of equity used to finance leveraged buyouts has increased significantly in recent years, enabling us to offer significant co-investment opportunities to both fund investors and other third parties. We have capitalized on this opportunity by building out our capital markets and distribution capabilities and creating new investment structures and products that allow us to syndicate a portion of the equity needed to finance acquisitions. These structures include co-investment vehicles and a principal-protected private equity product, which generally entitle the firm to receive management fees and/or a carried interest. As of December 31, 2011, we had \$2,943.9 million of AUM in products of this type. In addition, we manage certain separately managed accounts in the form of separate investment vehicles based on terms that are separately negotiated with the investor.

**Legacy Private Equity Funds.** The investment period for each of the 1996 Fund and all prior funds has ended. Because the general partners of these funds were not expected to receive meaningful proceeds from further realizations, interests in the general partners were not contributed to the Combined Business in connection with the Transactions. KKR will, however, continue to provide the legacy funds with management and other services until their liquidation. While we do not expect to receive meaningful fees for providing these services, we do not believe that the ongoing administration of the funds will materially interfere with the firm's operations or generate any material costs for the firm.

*Natural Resources*

We manage investments in natural resources assets, such as oil and natural gas properties. Our current strategy generally targets producing properties that are non-core to their current owners. The strategy ultimately aims to deliver current returns to investors through distributions generated by producing and selling the oil and natural gas reserves of these acquired properties, which also provides investors with exposure to commodity prices. As of December 31, 2011, we had received \$1,094.7 million of capital commitments to this strategy.

Table of Contents

***Infrastructure***

We manage investments in infrastructure assets in order to capitalize on the growing demand for global infrastructure investment. We believe that the global infrastructure market provides an opportunity for the firm's combination of private investment, operational improvement, and stakeholder engagement skills. This strategy seeks to achieve returns through the acquisition and operational improvement of assets important to the functioning of the economy and also to provide current income. As of December 31, 2011, we had received \$780.2 million of capital commitments to our Infrastructure Fund and \$1.4 billion of capital commitments through separately managed accounts.

***Real Estate***

We hired several experienced real estate investment executives in 2011 to develop a dedicated real estate strategy. As of December 31, 2011, we had committed \$300 million of firm capital to develop this strategy. In addition, we have the flexibility to invest in real estate investments across the capital structure through various vehicles, including our private equity and alternative credit funds. This platform targets real estate opportunities, including property-level equity, debt and special situations transactions and businesses with significant real estate holdings that can benefit from KKR's operational expertise. We seek to partner with real estate owners, lenders, operators, and developers to provide flexible capital to respond to transaction-specific needs, including the outright purchase or financing of existing assets or companies and the funding of future development or acquisition opportunities.

**Public Markets**

Through the Public Markets segment, we manage KKR Financial Holdings LLC, or KFN, which is a specialty finance company, as well as a number of investment funds, structured finance vehicles and separately managed accounts that invest capital in (i) leveraged credit strategies, such as leveraged loans and high yield bonds, (ii) liquid long/short equity strategies, and (iii) alternative credit strategies such as mezzanine investments, special situations investments and direct senior lending. These funds, vehicles and accounts are managed by KKR Asset Management LLC, or KAM, an SEC registered investment adviser. We intend to continue to grow this business by leveraging our global investment platform, experienced investment professionals and the ability to adapt our investment strategies to different market conditions to capitalize on investment opportunities that may arise at every level of the capital structure and across market cycles.

Table of Contents

As of December 31, 2011, this segment had \$15.4 billion of AUM, comprised of \$10.2 billion of assets managed in our leveraged credit strategies, \$0.2 billion of assets managed in our liquid long/short equity strategies, \$3.1 billion of assets managed in our alternative credit strategies, \$1.6 billion of assets managed across a range of strategies through KFN and \$0.3 billion of assets managed across other strategies. Our alternative credit investments include \$1.2 billion of assets managed in our mezzanine strategy, \$1.7 billion of assets managed in our special situations strategy and \$0.2 billion of assets managed in our direct lending strategy. The following chart presents the growth in the AUM of our Public Markets segment from the commencement of its operations in August 2004 through December 31, 2011.

**Public Markets Assets Under Management(1)**

*(\$ in billions)*

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(1)

For years 2006 through 2008, assets under management are presented pro forma for the Combination Transaction and, therefore, exclude the net asset value of KPE and its former commitments to our investment funds.

We launched our Public Markets business in August 2004. In connection with the formation of this business, we hired additional investment professionals with significant experience in evaluating and managing debt investments, including investments in corporate loans and debt securities, structured products and other fixed income instruments, and built out an investment platform for identifying, assessing, executing, monitoring and realizing investments in fixed income as well as other strategies, including equities.

*Performance*

We generally review our performance in the Public Markets segment by investment strategy. Our leveraged credit strategies invest in leveraged loans and high yield bonds, or a combination of both. In certain cases these strategies have meaningful track records and may be compared to widely-known



Table of Contents

indices. The following chart presents information regarding these leveraged loan and high yield bond strategies from inception to December 31, 2011. Our other credit and equity strategies have begun investing as recently as the fourth quarter of 2011 and therefore have not yet developed meaningful track records, and thus their performance is not included below. Past performance is no guarantee of future results.

*Inception-to-Date Annualized Gross Performance vs. Benchmark<sup>(1)</sup> by Strategy*

- 
- (1) The Benchmarks referred to herein include the S&P/LSTA Leveraged Loan Index (the "S&P/LSTA Loan Index") and the Bank of America Merrill Lynch High Yield Master II Index (the "BoAML HY Master II Index" and, together with the S&P/LSTA Loan Index, the "Indices"). The S&P/LSTA Loan Index is an index that comprises all loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: (i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; (ii) secured; (iii) U.S. dollar denominated; (iv) minimum term of one year at inception; and (v) minimum initial spread of LIBOR plus 1.25%. The BoAML HY Master II Index is a market value weighted index of below investment grade U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market. "Yankee" bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the BoAML HY Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US\$100 million. In addition, issues having a credit rating lower than BBB3, but not in default, are also included. The indices do not reflect the reinvestment of income or dividends and the indices are not subject to management fees, incentive allocations or expenses. It is not possible to invest directly in unmanaged indices.
- (2) The Secured Credit Unlevered model performance track record is presented as supplemental information. The Secured Credit Unlevered model represents performance of KKR's Secured Credit Levered composite calculated on an unlevered basis. KKR's Secured Credit Levered composite has an investment objective that allows it to invest in assets other than senior secured term loans and high yield securities, which includes asset backed securities, commercial mortgage backed securities, preferred stock, public equity, private equity and certain freestanding derivatives. In addition, KKR's Secured Credit Levered composite has employed leverage in its respective portfolios as part of its investment strategy. Gains realized with borrowed funds may cause returns to increase at a faster rate than would be the case without borrowings. If, however, investment results fail to cover the principal, interest and other costs of borrowings, returns could also

Table of Contents

decrease faster than if there had been no borrowings. Accordingly, the unlevered returns contained herein do not reflect the actual returns, and are not intended to be indicative of the future results of KKR's Secured Credit Levered composite. It is not expected that KKR's Secured Credit Levered composite will achieve comparable results. The Benchmark used for purposes of comparison for the Secured Credit strategy presented herein is the S&P/LSTA Loan Index. There are differences, in some cases, significant differences, between KKR's investments and the investments included in the Indices. For instance, KKR's composite may invest in securities that have a greater degree of risk and volatility, as well as liquidity risk, than those securities contained in the Indices.

- (3) Performance is based on a blended composite of Bank Loans Plus High Yield strategy accounts. The Benchmark used for purposes of comparison for the Bank Loans Plus High Yield strategy is based on 65% S&P/LSTA Loan Index and 35% ML HY Master II Index.
- (4) The Benchmark used for purposes of comparison for the High Yield carve-out strategy presented herein is based on the Bank of America Merrill Lynch High Yield Master II Index. The High Yield carve-out is comprised of all investments included in KKR-sponsored portfolios that have been identified as "below investment grade" or were rated "BB" or lower at time of issuance by Standard & Poor's. The collection of investments included in the High Yield carve-out come from various investment funds, vehicles and accounts sponsored by KKR.

*Investment Approach*

Our approach to making investments focuses on creating investment portfolios that generate attractive risk-adjusted returns by selecting high-quality investments that may be made at attractive prices, applying rigorous standards of due diligence when making investment decisions, subjecting investments to regular monitoring and oversight, and, for more liquid investments, making buy and sell decisions based on price targets and relative value parameters. The firm employs both "top-down" and "bottom-up" analyses when making investments. Our top-down analysis involves a macro analysis of relative asset valuations, long-term industry trends, business cycles, regulatory trends, interest rate expectations, credit fundamentals and technical factors to target specific industry sectors and asset classes in which to invest. From a bottoms-up perspective, our investment decision is predicated on an investment thesis that is developed using our proprietary resources and knowledge. We will invest in a company only after it has undergone a due diligence analysis and the applicable investment committee has approved it.

*Sourcing and Selecting Investments*

We source investment opportunities through a variety of channels, including internal deal generation strategies and the firm's global network of contacts at major companies, corporate executives, commercial and investment banks, financial intermediaries, other private equity sponsors and other investment and advisory institutions. We are also regularly provided with opportunities to invest, where appropriate, in the securities of KKR's private equity portfolio companies, though there are limitations by vehicle on the maximum size of such KKR-affiliated investments.

*Due Diligence and the Investment Decision*

Once a potential investment has been identified, our investment professionals screen the opportunity and make a preliminary determination concerning whether we should proceed with further diligence. When evaluating the suitability of an investment for our funds, we employ a relative value framework and subject the investment to a rigorous due diligence. This review considers, among other things, expected returns, capital structure, credit ratings, historical and projected financial data, the issuer's competitive position, the quality and track record of the issuer's management team, margin stability, and industry and company trends. Investment professionals use the services of outside advisors and industry experts as appropriate to assist them in the due diligence process and, when relevant and permitted, leverage the knowledge and experience of our private equity professionals. Strategy-specific investment committees monitor all due diligence practices and must approve an investment before it may be made.



Table of Contents

*Monitoring Investments*

We monitor our portfolios of investments using, as applicable, daily, quarterly and annual analyses. Daily analyses include morning market meetings, industry and company pricing runs, industry and company reports and discussions with the firm's private equity investment professionals on an as-needed basis. Quarterly analyses include the preparation of quarterly operating results, reconciliations of actual results to projections and updates to financial models (baseline and stress cases). Annual analyses involve conducting internal audits, and testing compliance with monitoring and documentation requirements.

*Public Markets Strategies and Vehicles*

*KFN*

KKR Financial Holdings LLC (NYSE: KFN), or KFN, is an NYSE-listed specialty finance company that commenced operations in July 2004. Its majority-owned subsidiaries finance and invest in financial assets, including below investment grade corporate debt, marketable equity securities and private equity. Additionally, KFN has and may make additional investments in other asset classes including natural resources and real estate. Below investment grade debt includes senior secured and unsecured loans, mezzanine loans, high yield bonds, and distressed and stressed debt. We serve as the external manager of KFN under a management agreement and are entitled to receive a management fee and an incentive fee.

*Credit Strategies*

Our credit strategies business pursues investments in debt securities ranging from liquid securities such as leveraged loans and high-yield bonds to alternative credit including longer-duration strategies such as mezzanine and distressed asset investing. These investments may be made across a range of vehicles including funds and single- or cross-strategy separately managed accounts. These managed accounts enable us to tailor an investment program to meet the specific risk, return and investment objective of individual institutional investors.

*Leveraged Credit.* Our leveraged credit strategies are directed at investing in leveraged loans, high-yield bonds, or a combination of both. They are pursued primarily through separately managed accounts, with a smaller amount of capital residing in funds. We are entitled to receive a fee for managing these vehicles.

*Structured Credit Vehicles.* Beginning in 2005, we began managing structured credit vehicles in the form of collateralized loan obligation transactions, or CLOs. CLOs are typically structured as bankruptcy-remote, special purpose investment vehicles which acquire, monitor and, to varying degrees, manage a pool of fixed income assets. KFN conducts a majority of its business through its holdings of a majority of the voting securities of, and certain other interests in, such CLOs. The CLOs serve as long term financing for fixed income investments and as a way to minimize refinancing risk, minimize maturity risk and secure a fixed cost of funds over an underlying market interest rate for KFN and other fixed income funds. We may receive a fee for managing certain CLOs.

*Alternative Credit.* In the last several years, our Public Markets business has expanded to include adjacent investment strategies in alternative credit which leverage the knowledge and relationships developed in the leveraged credit business. These strategies include mezzanine, distressed or special situations investing, and direct lending. As with our leveraged credit strategy, these are pursued through a combination of separately managed accounts and funds. For managing these accounts and funds, we are entitled to receive either fees or a combination of fees and carried interest.

*Mezzanine.* We manage mezzanine investments primarily through a fund, seeking to invest in directly sourced third-party mezzanine transactions. These investments often consist of mezzanine debt, which generates a current yield, coupled with marginal equity exposure with additional upside

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### Table of Contents

potential. Though we have invested in mezzanine for many years through other vehicles and continue to do so today, we closed our first dedicated mezzanine fund in August 2011. As of December 31, 2011, we had AUM of \$1.2 billion in this strategy.

*Special Situations.* We seek to make opportunistic investments largely in distressed companies through our special situations investment strategy. These investments include secondary market distressed (including post-restructuring equity), control-oriented opportunities, rescue financing (debt or equity investments made to address covenant, maturity or liquidity issues), debtor-in-possession or exit financing, structured principal investments, and other event-driven investments in debt or equity. This strategy is primarily managed through separately managed accounts. As of December 31, 2011, we had AUM of \$1.7 billion in this strategy.

*Direct Lending.* We manage investments in proprietarily sourced senior debt financings for middle-market companies through our direct lending strategy. As of December 31, 2011, we had committed \$100 million of balance sheet capital to the strategy and had raised an additional \$102 million of third-party capital for the strategy.

### *Equity Strategies*

We hired a team of experienced public equity investment executives in 2011 to establish a long/short equity strategy. As of December 31, 2011, we had committed \$100 million of balance sheet capital to the strategy and had raised an additional \$142.7 million of third-party capital for the strategy.

The table below presents information as of December 31, 2011 relating to certain vehicles that invest in the strategies discussed above.

(\$ in millions)	AUM	FPAUM	Typical Mgmt Fee Rate	Incentive Fee / Carried Interest	Hurdle Rate	Duration of Capital
KFN	\$ 1,565	\$ 1,565	1.75%	25.00%	8.00%	Permanent(1)
<b>Leveraged Credit:</b>						
Leveraged Credit						Subject to
SMA's	2,683	2,683	0.50 - 1.00%	N/A	N/A	Redemptions
CLOs	7,489	925	0.50%	N/A	N/A	10 - 14 Years(3)
<b>Total Leveraged Credit</b>	<b>10,172</b>	<b>3,608</b>				
Alternative Credit(2)	3,087	2,896	0.75 - 1.50%(4)	10.0 - 20.0%	8.00	8 - 15 Years(3)
Long/Short Equities	237	139	1.25 - 1.50%	17.5 - 20.0%	N/A	Subject to
						Redemptions
<b>Other:</b>						
Corporate Capital Trust(5)	116	116	1.00%	10.0%	7.00%	7 years
Strategic Capital Funds (SCF)(6)	204	204	0.25%	N/A	N/A	In managed wind down
<b>Total Other</b>	<b>320</b>	<b>320</b>				
<b>Total</b>	<b>\$ 15,381</b>	<b>\$ 8,528</b>				

- (1) The management agreement may be terminated only in limited circumstances and, except for a termination arising from certain events of cause, upon payment of a termination fee to KKR.
- (2) AUM and FPAUM include all assets invested by vehicles that principally invest in alternative credit strategies, respectively, and consequently may include a certain amount of assets invested in other strategies.
- (3) Term for duration of capital is since inception. Inception dates for CLOs were between 2005 and 2007 and for separately managed accounts and funds investing in alternative credit strategies from 2009 through 2010.
- (4) Lower fees on uninvested capital in certain vehicles.
- (5) Corporate Capital Trust is a business development company sub-advised by KAM. By December 31, 2018, the capital in the Corporate Capital Trust vehicle may become permanent.
- (6) Strategic Capital Funds is a fixed income hedge fund managed by KAM. We do not earn an incentive fee or carried interest on the assets managed through Strategic Capital Funds, which are currently in managed wind down.

Table of Contents

**Capital Markets and Principal Activities**

Our Capital Markets and Principal Activities segment combines KKR's principal assets with our global capital markets business. Our capital markets business supports our firm, our portfolio companies and select third-party clients by providing tailored capital markets advice and by developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing. Our capital markets services include arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets services. When our capital markets business underwrites an offering of securities or a loan, it commits to buy and sell an issue of securities or principal amount of indebtedness, and earns fees by purchasing those securities or indebtedness at a discount. In a syndication, this business earns a fee for arranging transactions and placing securities or indebtedness. To allow us to carry out these activities, we are registered or authorized to carry out certain broker dealer activities in various countries in North America, Europe, Asia-Pacific and the Middle East.

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

As of December 31, 2011, the segment had \$4.7 billion of investments at fair value. The following charts present information concerning our principal assets by type, geography and industry as of December 31, 2011.

**Investments By Type**

**Investments By Geography**

**Investments By Industry**



Table of Contents

**Client & Partner Group**

We have developed our Client & Partner Group to better service our existing investors and to source new investor relationships. The group is responsible for raising capital for us globally across all products, expanding our client relationships across asset classes and across types of investors, developing products to meet our clients' needs, and servicing existing investors and products. As of December 31, 2011, we had 52 executives and professionals dedicated to our Client & Partner Group.

The following charts detail our investor base by type and geography as of December 31, 2011.

**Investor Base By Type(1)**

**Investor Base By Geography(1)**

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(1) Based on the AUM of our Private Markets investment funds, Private Markets co-investment vehicles, and Public Markets separately managed accounts and investment funds.

**Competition**

We compete with other investment managers for both investors and investment opportunities. The firm's competitors consist primarily of sponsors of public and private investment funds, business development companies, investment banks, commercial finance companies and operating companies acting as strategic buyers. We believe that competition for investors is based primarily on investment performance, investor liquidity and willingness to invest, investor perception of investment managers' drive, focus and alignment of interest, business reputation, duration of relationships, quality of services, pricing, fund terms including fees, and the relative attractiveness of the types of investments that have been or are to be made. We believe that competition for investment opportunities is based primarily on the pricing, terms and structure of a proposed investment and certainty of execution. In addition to these traditional competitors within the global investment management industry, we also face competition from local and regional firms, financial institutions and sovereign wealth funds, in the various countries in which we invest. In certain emerging markets, local firms may have more established relationships with the companies in which we are attempting to invest. These competitors often fall into one of the aforementioned categories but in some cases may represent new types of investors, including high net worth individuals, family offices and state-sponsored entities.

Over the past several years, the size and number of private equity funds and funds focused on credit and equity strategies have continued to increase, heightening the level of competition for investor capital. Fund managers have also increasingly adopted investment strategies outside of their traditional focus. For example, funds focused on credit and equity strategies have become active in taking control positions in companies, while private equity funds have acquired minority and/or debt positions in publicly listed companies. This convergence could heighten competition for investments. Furthermore, as institutional investors increasingly consolidate their relationships for multiple investment products with a few investment firms, competition for capital from such institutional investors may become more acute.

Some of the entities that we compete with as an investment firm may have greater financial, technical, marketing and other resources and more personnel than us and, in the case of some asset



Table of Contents

classes, longer operating histories, more established relationships or greater experience. Several of our competitors also have raised, or may raise, significant amounts of capital and have investment objectives that are similar to the investment objectives of our funds, which may create additional competition for investment opportunities. Some of these competitors may also have lower costs of capital and access to funding sources that are not available to us, which may create competitive advantages for them. In addition, some of these competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider range of investments and to bid more aggressively than us for investments. Strategic buyers may also be able to achieve synergistic cost savings or revenue enhancements with respect to a targeted portfolio company, which may provide them with a competitive advantage in bidding for such investments.

We expect to compete as a capital markets business primarily with investment banks and independent broker-dealers in the North America, Europe, Asia-Pacific and the Middle East. We principally focus our capital markets activities on the firm, our portfolio companies and investors, but we also seek to service other third parties. While we generally target customers with whom we have existing relationships, those customers may have similar relationships with the firm's competitors, many of whom will have access to competing securities transactions, greater financial, technical or marketing resources or more established reputations than us. The limited operating history of our capital markets business could make it difficult for us to compete with established investment banks or broker-dealers, participate in capital markets transactions of issuers or successfully grow the firm's capital markets business over time.

Competition is also intense for the attraction and retention of qualified employees and consultants. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and consultants and retain and motivate our existing employees and consultants.

**Employees, Consultants and Advisors**

As of December 31, 2011, we employed or retained the services of over 900 people worldwide:

Investment Professionals	217
Other Professionals	333
Support Staff	276
<b>Total Employees</b>	<b>826</b>
KKR Capstone	58
Senior Advisors	32
<b>Total Employees, Consultants and Advisors</b>	<b>916</b>

*Investment Professionals*

Our 217 investment professionals come from diverse backgrounds in private equity, fixed income, infrastructure, real assets and other investment assets and include executives with operations, strategic consulting, risk management, liability management and finance experience. As a group, these professionals provide us with a powerful global team for identifying attractive investment opportunities, creating value, and generating superior returns.

*Other Professionals*

Our 333 other professionals come from diverse backgrounds in capital markets, capital raising, client servicing, public affairs, finance, tax, legal, human resources, and information technology. As a group, these professionals provide us with a strong team for overseeing investments and performing capital markets activities, servicing our existing investors and creating relationships with new investors globally. Additionally, a majority of these other professionals are responsible for supporting the global infrastructure of KKR.



Table of Contents

*KKR Capstone*

We have developed an institutionalized process for creating value in investments. As part of our effort, we utilize a team of 58 operating consultants at KKR Capstone, who work exclusively with our investment professionals and portfolio company management teams. With executives in New York, Menlo Park, Houston, London, Hong Kong, Beijing, Tokyo, Sydney and Mumbai, KKR Capstone provides additional expertise for assessing investment opportunities and assisting managers of portfolio companies in defining strategic priorities and implementing operational changes. During the initial phases of an investment, KKR Capstone's work seeks to implement our thesis for value creation. Our operating consultants may assist portfolio companies in addressing top-line growth, cost optimization and efficient capital allocation and in developing operating and financial metrics. Over time, this work shifts to identifying challenges and taking advantage of business opportunities that arise during the life of an investment.

*Senior Advisors*

To complement the expertise of our investment professionals, we have retained a team of 32 senior advisors to provide us with additional operational and strategic insights. The responsibilities of senior advisors include serving on the boards of our portfolio companies, helping us evaluate individual investment opportunities and assisting portfolio companies with operational matters. These individuals include former chief executive officers, chief financial officers and chairmen of Fortune 500 companies, as well as other individuals who have held leading positions in major corporations and public agencies worldwide. Several senior advisors also participate on our portfolio management committees, which monitor the performance of our private equity investments.

**Organizational Structure**

The following simplified diagram illustrates our organizational structure as of December 31, 2011.

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(1)

## Edgar Filing: KKR & Co. L.P. - Form 10-K

KKR Management LLC serves as the general partner of KKR & Co. L.P., which is governed by a Board of Directors consisting of a majority of independent directors. KKR Management LLC does not hold any economic interests in KKR & Co. L.P. and is owned by senior KKR principals.

Table of Contents

- (2) KKR Holdings is the holding vehicle through which our principals indirectly own their interest in KKR. KKR Group Partnership Units that are held by KKR Holdings are exchangeable for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance with applicable vesting and transfer restrictions. As limited partner interests, these KKR Group Partnership Units are non-voting and do not entitle KKR Holdings to participate in the management of our business and affairs. As of December 31, 2011, KKR Holdings had a 66.8% interest in our business indirectly through its limited partner interests in the KKR Group Partnerships.
- (3) KKR Holdings holds special non-economic voting units in our partnership that entitle it to cast, with respect to those limited matters that may be submitted to a vote of our unitholders, a number of votes equal to the number of KKR Group Partnership Units that it holds from time to time.
- (4) KKR Group Finance Co. LLC is a wholly-owned subsidiary of KKR Management Holdings Corp. and the issuer of our \$500 million aggregate principal amount of 6.375% Senior Notes due 2020. The Senior Notes are guaranteed by KKR & Co. L.P. and the KKR Group Partnerships.
- (5) Because the income of KKR Management Holdings L.P. is likely to be primarily non-qualifying income for purposes of the qualifying income exception to the publicly traded partnership rules, we formed KKR Management Holdings Corp., which is subject to taxation as a corporation for U.S. federal income tax purposes, to hold our KKR Group Partnership Units in KKR Management Holdings L.P. Accordingly, our allocable share of the taxable income of KKR Management Holdings L.P. will be subject to taxation at a corporate rate. KKR Management Holdings L.P., which is treated as a partnership for U.S. federal income tax purposes, was formed to hold interests in our fee generating businesses and other assets that may not generate qualifying income for purposes of the qualifying income exception to the publicly traded partnership rules. KKR Fund Holdings L.P., which is also treated as a partnership for U.S. federal income tax purposes, was formed to hold interests in our businesses and assets that will generate qualifying income for purposes of the qualifying income exception to the publicly traded partnership rules. A portion of the assets held by KKR Fund Holdings L.P. and certain other assets that may generate qualifying income are also owned by KKR Management Holdings L.P.
- (6) 40% of the carried interest earned in relation to our investment funds and carry paying co-investment vehicles is allocated to a carry pool from which carried interest is allocated to our principals, other professionals and selected other individuals who work in these operations. No carried interest has been allocated with respect to co-investments acquired from KPE in the Combination Transaction.

**Regulation**

Our operations are subject to regulation and supervision in a number of jurisdictions. The level of regulation and supervision to which we are subject varies from jurisdiction to jurisdiction and is based on the type of business activity involved. We, in conjunction with our outside advisors and counsel, seek to manage our business and operations in compliance with such regulation and supervision. The regulatory and legal requirements that apply to our activities are subject to change from time to time and may become more restrictive, which may make compliance with applicable requirements more difficult or expensive or otherwise restrict our ability to conduct our business activities in the manner in which they are now conducted. Changes in applicable regulatory and legal requirements, including changes in their enforcement, could materially and adversely affect our business and our financial condition and results of operations. As a matter of public policy, the regulatory bodies that regulate our business activities are generally responsible for safeguarding the integrity of the securities and financial markets and protecting investors who participate in those markets rather than protecting the interests of our unitholders.

Table of Contents

*United States*

*Regulation as an Investment Adviser*

We conduct our advisory business through our investment adviser subsidiaries, including Kohlberg Kravis Roberts & Co. L.P. and its wholly-owned subsidiary KKR Asset Management LLC, both of which are registered as investment advisers with the SEC under the Investment Advisers Act. These investment advisers are subject to the anti-fraud provisions of the Investment Advisers Act and to fiduciary duties derived from these provisions which apply to our relationships with our advisory clients globally, including funds that we manage. These provisions and duties impose restrictions and obligations on us with respect to our dealings with our investors and our investments, including for example restrictions on agency cross and principal transactions. Our registered investment advisers are subject to periodic SEC examinations and other requirements under the Investment Advisers Act and related regulations primarily intended to benefit advisory clients. These additional requirements relate, among other things, to maintaining an effective and comprehensive compliance program, recordkeeping and reporting requirements and disclosure requirements. The Investment Advisers Act generally grants the SEC broad administrative powers, including the power to limit or restrict an investment adviser from conducting advisory activities in the event it fails to comply with federal securities laws. Additional sanctions that may be imposed for failure to comply with applicable requirements include the prohibition of individuals from associating with an investment adviser, the revocation of registrations and other censures and fines.

*Regulation as a Broker-Dealer*

KKR Capital Markets LLC, one of our subsidiaries, is registered as a broker-dealer with the SEC under the Exchange Act and in all 50 U.S. States and U.S. territories and is a member of the Financial Industry Regulatory Authority, or FINRA. As a registered broker-dealer, KKR Capital Markets LLC is subject to periodic SEC and FINRA examinations and reviews. A broker-dealer is subject to legal requirements covering all aspects of its securities business, including sales and trading practices, public and private securities offerings, use and safekeeping of customers' funds and securities, capital structure, record-keeping and retention and the conduct and qualifications of directors, officers, employees and other associated persons. These requirements include the SEC's "uniform net capital rule," which specifies the minimum level of net capital that a broker-dealer must maintain, requires a significant part of the broker-dealer's assets to be kept in relatively liquid form, imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing its capital and subjects any distributions or withdrawals of capital by a broker-dealer to notice requirements. These and other requirements also include rules that limit a broker-dealer's ratio of subordinated debt to equity in its regulatory capital composition, constrain a broker-dealer's ability to expand its business under certain circumstances and impose additional requirements when the broker-dealer participates in securities offerings of affiliated entities. Violations of these requirements may result in censures, fines, the issuance of cease-and-desist orders, revocation of licenses or registrations, the suspension or expulsion from the securities industry of the broker-dealer or its officers or employees or other similar consequences by regulatory bodies.

*United Kingdom*

KKR Capital Markets Limited, one of our subsidiaries, is authorized in the United Kingdom under the Financial Services and Markets Act 2000, or FSMA, and has permission to engage in a number of activities regulated under FSMA, including dealing as principal or agent and arranging deals in relation to certain types of specified investments and arranging the safeguarding and administration of assets. KKR Capital Markets Limited also benefits from a passport under the single market directives to offer services cross border into all countries in the European Economic Area and Gibraltar. Kohlberg Kravis Roberts & Co. Ltd, another one of our subsidiaries, is authorized in the United Kingdom under FSMA and has permission to engage in a number of regulated activities including advising on and arranging deals relating to corporate finance business in relation to certain types of specified investments. KKR

Table of Contents

Asset Management Ltd., another one of our subsidiaries, is authorized in the United Kingdom under FSMA and has permission to engage in a number of regulated activities including and advising on and arranging deals in relation to certain types of specified investments. FSMA and related rules govern most aspects of investment business, including sales, research and trading practices, provision of investment advice, corporate finance, use and safekeeping of client funds and securities, regulatory capital, record keeping, margin practices and procedures, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures. The Financial Services Authority is responsible for administering these requirements and our compliance with them. Violations of these requirements may result in censures, fines, imposition of additional requirements, injunctions, restitution orders, revocation or modification of permissions or registrations, the suspension or expulsion from certain "controlled functions" within the financial services industry of officers or employees performing such functions or other similar consequences.

***Other Jurisdictions***

Certain other subsidiaries or funds that we advise are registered with, have been licensed by or have obtained authorizations to operate in their respective jurisdictions outside of the United States. These registrations, licenses or authorizations relate to providing investment advice, broker-dealer activities, marketing of securities and other regulated activities. Failure to comply with the laws and regulations governing these subsidiaries and funds that have been registered, licensed or authorized could expose us to liability and/or damage our reputation.

KKR Capital Markets LLC is also registered as an international dealer under the Securities Act (Ontario). This registration permits us to trade in non-Canadian equity and debt securities with certain types of investors located in Ontario, Canada.

KKR Capital Markets Japan Limited, a joint-stock corporation, is a certified Class 2 broker-dealer registered under the Japanese Financial Instruments and Exchange Law of 2007.

KKR MENA Limited, a Dubai International Financial Centre company, is licensed to arrange credit or deals in investments, advise on financial products or credit, and manage assets, and is regulated by the Dubai Financial Services Authority.

KKR Australia Pty Limited is Australian financial services licensed and is authorized to provide advice on and deal in financial products for wholesale clients, and is regulated by the Australian Securities and Investments Commission.

KKR Capital Markets Asia Limited is licensed by the Securities and Futures Commission in Hong Kong to carry on dealing in securities and advising on securities regulated activities.

KKR Holdings Mauritius, Ltd. and KKR Account Adviser (Mauritius), Ltd. are unrestricted investment advisers authorized to manage portfolios of securities and give advice on securities transactions, and are regulated by the Financial Services Commission, Mauritius.

KKR Account Adviser (Mauritius), Ltd. is registered as a foreign institutional investor with the Securities and Exchange Board of India, or SEBI, under the SEBI (Foreign Institutional Investors) Regulations, 1995, pursuant to which it is permitted to make and manage investments into listed and unlisted securities of Indian issuers.

KKR Mauritius Direct Investments I, Ltd. is registered as an FII sub account with SEBI pursuant to which it can make investments in listed and unlisted securities of Indian issuers, and is incorporated as an investment holding company in Mauritius regulated by the Financial Services Commission, Mauritius.

KKR India Financial Services Private Limited is registered with the Reserve Bank of India as a non-deposit taking non-banking financial company and is authorized to undertake lending and financing activities.

Table of Contents

KKR Capital Markets India Private Limited is licensed by the SEBI as a merchant bank that is authorized to execute capital market mandates, underwrite issues, offer investment advisory and other consultancy/advisory services.

Stamariko Holdings Limited is registered as an FII sub-account with SEBI pursuant to which it can make investments in listed and unlisted securities of Indian issuers.

Daena Venture Capital Investments, Ltd. is registered with SEBI as a foreign venture capital investor, or FVCI, pursuant to which it can make certain investments in securities of Indian issuers and is incorporated as an investment holding company in Mauritius regulated by the Financial Services Commission, Mauritius.

From time to time, one or more of our investment funds or their related investment vehicles may be regulated as a mutual fund by the Cayman Islands Monetary Authority, regulated as an investment limited partnership by the Central Bank of Ireland or registered with the Financial Supervisory Service of the Republic of Korea.

There are a number of pending or recently enacted legislative and regulatory initiatives in the United States and in Europe that could significantly affect our business. Please see "Risk Factors Risks Related to Our Business Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could result in additional burdens on our business."

**Website and Availability of SEC Filings**

Our website address is *www.kkr.com*. Information on our website is not incorporated by reference herein and is not a part of this Form 10-K. We make available free of charge on our website or provide a link on our website to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after those reports are electronically filed with, or furnished to, the SEC. To access these filings, go to the "KKR & Co. L.P." portion of our "Public Investors" page on our website, then click on "SEC Filings". You may also read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition these reports and the other documents we file with the SEC are available at a website maintained by the SEC at *www.sec.gov*.

From time to time, we may use our website as a channel of distribution of material information. Financial and other material information regarding our company is routinely posted on and accessible at *www.kkr.com*. In addition, you may automatically receive e-mail alerts and other information about our company by enrolling your e-mail address by visiting the "E-mail Alerts" section at under the "KKR & Co. L.P." section of the "Public Investors" heading at *www.kkr.com*.

**ITEM 1A. RISK FACTORS**

Investing in our securities involves risk. Persons buying our securities should carefully consider the risks described below and the other information contained in this report and other filings that we make from time to time with the SEC, including our consolidated and combined financial statements and accompanying notes. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. In addition, the risks described below are not the only risks we face. Our business, financial condition or results of operations could also be adversely affected by additional factors that apply to all companies generally, as well as other risks that are not currently known to us or that we currently view to be immaterial. In any such case, the trading price of our securities could decline and you may lose all or part of your original investment. While we attempt to mitigate known risks to the extent we believe to be practicable and reasonable, we can provide no assurance, and we make no representation, that our mitigation efforts will be successful.

Table of Contents

**Risks Related to Our Business**

*Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition.*

Our business is materially affected by conditions in the financial markets and economic conditions or events throughout the world, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). For example, the unprecedented turmoil in the global financial markets during 2008 and 2009 provoked significant volatility of securities prices, contraction in the availability of credit and the failure of a number of companies, including leading financing institutions, and had a material adverse effect on our businesses. While the adverse effects of that period have abated to a degree, global financial markets have experienced significant volatility following the downgrade by Standard & Poor's on August 5, 2011 of the long-term credit rating of U.S. Treasury debt from AAA to AA+. In addition, the recent concern regarding the inability of Greece and certain other European countries to pay their national debt, the response by Eurozone policy makers to mitigate this sovereign debt crisis and the concerns regarding the stability of the Eurozone currency have created uncertainty in the credit markets. As a result, there has been a strain on banks and other financial services participants, which could adversely affect our ability to obtain credit on favorable terms or at all. In addition, there continue to be signs of economic weakness such as relatively high levels of unemployment and governmental deficits in major markets including the United States and Europe. Further, financial institutions have generally not yet provided debt financing in amounts and on terms commensurate with what they provided prior to 2008.

Such market and economic conditions are outside our control and may affect the level and volatility of securities prices and the liquidity and the value of our investments. In addition, we may not be able to or may choose not to manage our exposure to these conditions and/or events. For example, as of March 31, 2009, the date of the lowest aggregate valuation of our private equity funds during the most recent downturn, the investments in our contributed private equity funds were marked down to 67% of original cost. Our profitability may also be adversely affected by our fixed costs and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in net income relating to changes in market and economic conditions.

Our funds may be affected by reduced opportunities to exit and realize value from their investments as lack of financing makes it more difficult for potential buyers to raise sufficient capital to purchase assets in our funds' portfolios, by lower than expected returns on investments, which could cause us to realize diminished or no carried interest, and by the fact that we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds because we can generally only raise capital for a successor fund following the substantial deployment of capital from the existing fund. In the event of poor performance by existing funds or during periods of unfavorable fundraising conditions, as have prevailed in recent years, pressures by investors for lower fees, different fee sharing arrangements for transaction or other fees, and other concessions (for example, the inclusion of performance hurdles that would require us to generate a specified return on investment prior to our right to receive carried interest) would likely continue and could increase. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than for prior funds we have managed. In the circumstances described above, successor funds raised by us are also likely in many instances to be smaller than our comparable predecessor funds. Investors may also seek to redeploy capital away from certain of our fixed income or other non-private equity investment vehicles, which permit redemptions on relatively short notice, in order to meet liquidity needs or invest in other asset classes. Any of these developments could adversely affect our future revenues, net income, cash flow, financial condition or ability to retain our employees. See " Our inability to raise additional or successor funds could have a material adverse impact on our business" and " Our investors in future funds may negotiate to pay us lower management fees and the economic terms of our future funds may be less favorable to us than those of our existing funds, which could adversely affect our revenues."

Table of Contents

During periods of difficult market or economic conditions or slowdowns (which may be across one or more industries, sectors or geographies), companies in which we have invested may experience decreased revenues, financial losses, credit rating downgrades, difficulty in obtaining access to financing and increased funding costs. These companies may also have difficulty in expanding their businesses and operations or be unable to meet their debt service obligations or other expenses as they become due, including expenses payable to us. Negative financial results in our funds' portfolio companies may result in lower investment returns for our investment funds, which could materially and adversely affect our operating results and cash flow. To the extent the operating performance of such portfolio companies (as well as valuation multiples) deteriorate or do not improve, our funds may sell those assets at values that are less than we projected or even at a loss, thereby significantly affecting those funds' performance and consequently our operating results and cash flow. During periods of economic difficulty, our investment funds' portfolio companies may also have difficulty expanding their businesses and operations or meeting their debt service obligations or other expenses as they become due, including amounts payable to us. Furthermore, negative market conditions or a specific market dislocation may result in lower investment returns for our funds, which would further adversely affect our net income. Adverse conditions may also increase the risk of default with respect to private equity, fixed income and other equity investments that we manage. Even if economic and market conditions do improve broadly, adverse conditions in particular sectors may also cause our performance to suffer.

***Changes in the debt financing markets may negatively impact the ability of our investment funds and their portfolio companies to obtain attractive financing for their investments and may increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income.***

In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Any failure by lenders to provide previously committed financing can also expose us to potential claims by sellers of businesses which we may have contracted to purchase. Similarly, our portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that credit markets render such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns on our funds. In addition, to the extent that the current markets make it difficult or impossible to refinance debt that is maturing in the near term, we or some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection. In addition, to the extent that conditions in the credit markets impair the ability of our portfolio companies to refinance or extend maturities on their outstanding debt, either on favorable terms or at all, the operating performance of those portfolio companies may be negatively impacted, which could impair the value of our investment in those portfolio companies and lead to a decrease in the investment income earned by us. In some cases, the inability of our portfolio companies to refinance or extend maturities may result in the inability of those companies to repay debt at maturity and may cause the companies to sell assets, undergo a recapitalization or seek bankruptcy protection, which would also likely impair the value of our investment and lead to a decrease in investment income earned by us.

***Adverse economic and market conditions may adversely affect our liquidity position, which could adversely affect our business operations in the future.***

We expect that our primary liquidity needs will consist of cash required to:

continue to grow our business, including seeding new strategies and funding our capital commitments made to existing and future funds, co-investments and, any net capital requirements of our capital markets companies and co-investments alongside our funds;

service debt obligations, as well as any contingent liabilities that may give rise to future cash payments;



Table of Contents

fund cash operating expenses;

pay amounts that may become due under our tax receivable agreement with KKR Holdings;

make cash distributions in accordance with our distribution policy;

underwrite commitments within our capital markets business; and

acquire additional principal assets.

These liquidity requirements are significant and, in some cases, involve capital that will remain invested for extended periods of time. As of December 31, 2011, we have approximately \$665.2 million of remaining unfunded capital commitments to our investment funds. Our commitments to our funds will require significant cash outlays over time, and there can be no assurance that we will be able to generate sufficient cash flows from realizations of investments to fund them. In addition, as of December 31, 2011, we had \$500.0 million of borrowings outstanding under our credit facilities and debt securities and \$989.4 million of cash and short-term investments. While we have long-term committed financings with substantial facility limits, the terms of those facilities will expire in 2013 and 2016 and the Senior Notes become due in 2020 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity"), and any borrowings thereunder will require refinancing or renewal, which could result in higher borrowing costs, or issuing equity. Depending on credit market conditions, we may not be able to renew all or part of these credit facilities or find alternate sources of financing on commercially reasonable terms or raise equity. In addition, the underwriting commitments for our capital markets business may require significant cash obligations, and these commitments may also put pressure on our liquidity. The holding company for our capital markets business has entered into a credit agreement that provides for revolving borrowings of up to \$500 million, which can be used in connection with our capital markets business, including placing and underwriting securities offerings. To the extent we commit to buy and sell an issue of securities in firm commitment underwritings or otherwise, we may be required to borrow under our credit agreement for our capital markets business to fund such obligations, which, depending on the size and timing of the obligations, may limit our ability to enter into other underwriting arrangements or similar activities, service existing debt obligations or otherwise grow our business. Regulatory capital requirements may also limit the ability of our broker-dealer subsidiaries to participate in underwriting or other transactions or to allocate our capital more efficiently across our businesses. In the event that our liquidity requirements were to exceed available liquid assets for the reasons specified above or for any other reason, we could be forced to sell assets or seek to raise debt or equity capital on unfavorable terms.

***The "clawback" or "net loss sharing" provisions in our governing agreements may give rise to a contingent obligation that may require us to return or contribute amounts to our funds and investors.***

The partnership documents governing our private equity funds generally include a "clawback" or, in certain instances, a "net loss sharing" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return or contribute amounts to the fund for distribution to investors at the end of the life of the fund. 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 after taking into account performance hurdles, if any. Excluding carried interest received by the general partners of our 1996 Fund (which was not contributed to us in the Transactions), as of December 31, 2011, the amount of carried interest we have received that is subject to this clawback obligation was \$82.7 million, assuming that all applicable private equity funds were liquidated at their December 31, 2011 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been \$800.9 million. Under a "net loss sharing provision," upon the liquidation of a fund, the general

Table of Contents

partner is required to contribute capital to the fund, to fund 20% of the net losses on investments. In these vehicles, such losses would be required to be paid by us to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed. Based on the fair market values as of December 31, 2011, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the contingent repayment obligation in connection with the net loss sharing provision as of December 31, 2011 would have been approximately \$1,006.6 million.

Prior to the Transactions, certain of our 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 our principals remain responsible for clawback obligations relating to carry distributions received prior to the Transactions up to a maximum of \$223.6 million. Carry distributions arising subsequent to the Transactions may give rise to clawback obligations that may be allocated generally to carry pool participants and the Combined Business in accordance with the terms of the instruments governing the KKR Group Partnerships. Unlike the "clawback" provisions, the Combined Business will be responsible for amounts due under net loss sharing arrangements and will indemnify our principals for any personal guarantees that they have provided with respect to such amounts. In addition, guarantees of or similar arrangements relating to, clawback or net loss sharing in favor of third party investors in an individual investment partnership by entities that are part of the Combined Business may limit distributions of carried interest more generally.

***Our earnings and cash flow are highly variable due to the nature of our business and we do not intend to provide earnings guidance, each of which may cause the value of interests in our business to be volatile.***

Our earnings are highly variable from quarter to quarter due to the volatility of investment returns of most of our funds and other investment vehicles and our principal assets and the fees earned from our businesses. We recognize earnings on investments in our funds based on our allocable share of realized and unrealized gains (or losses) reported by such funds and for certain of our recent funds, when a performance hurdle is achieved. A decline in realized or unrealized gains, a failure to achieve a performance hurdle or an increase in realized or unrealized losses, would adversely affect our net income. Fee income, which we recognize when contractually earned, can vary due to fluctuations in AUM, the number of investment transactions made by our funds, the number of portfolio companies we manage, the fee provisions contained in our funds and other investment products and transactions by our capital markets business. Fees for the years ended December 31, 2009, 2010 and 2011 were \$331.3 million, \$435.4 million and \$723.6 million, respectively. We may create new funds or investment products or vary the terms of our funds or investment products, which may alter the composition or mix of our income from time to time. We may also experience fluctuations in our results from quarter to quarter, including our revenue and net income, due to a number of other factors, including changes in the values of our funds' investments, changes in the amount of distributions or interest earned in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. Net income (loss) attributable to KKR & Co. L.P. for the years ended December 31, 2009, 2010 and 2011 was \$849.7 million, \$333.2 million, and \$1.9 million, respectively. Such fluctuations may lead to variability in the value of interests in our business and cause our results for a particular period not to be indicative of our performance in future periods. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the value of interests in our business.

The timing and receipt of carried interest from our investment funds are unpredictable and will contribute to the volatility of our cash flows. Carried interest is generally distributed to the general partner of a vehicle with a clawback or net loss sharing provision only after all of the following are

Table of Contents

met: (i) a realization event has occurred (e.g., sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns on realized investments since its inception, in excess of a performance hurdle, where applicable; and (iii) with respect to investments with a fair value below cost, cost has been returned to investors in an amount sufficient to reduce remaining cost to the investments' fair value. Carried interest payments from investments depend on our funds' performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering or other exit. To the extent an investment is not profitable, no carried interest shall be received from our funds with respect to that investment and, to the extent such investment remains unprofitable, we will only be entitled to a management fee on that investment. Furthermore, certain vehicles and separately managed accounts may not provide for the payment of carry at all. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash. We cannot predict when, or if, any realization of investments will occur. In addition, if finance providers, such as commercial and investment banks, make it difficult for potential purchasers to secure financing to purchase companies in our investment funds' portfolio, it may decrease potential realization events and the potential to earn carried interest. A downturn in the equity markets would also make it more difficult to exit investments by selling equity securities. If we were to have a realization event in a particular quarter, the event may have a significant impact on our cash flows during the quarter that may not be replicated in subsequent quarters. A decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our investment income, which could further increase the volatility of our quarterly results.

***A decline in the pace or size of investment by our funds or an increase in the amount of transaction fees we share with our investors would result in our receiving less revenue from transaction fees.***

The transaction fees that we earn are driven in part by the pace at which our funds make investments and the size of those investments. Any decline in that pace or the size of such investments would reduce our transaction fees and could make it more difficult for us to raise capital. Many factors could cause such a decline in the pace of investment, including:

the inability of our investment professionals to identify attractive investment opportunities;

competition for such opportunities among other potential acquirers;

decreased availability of capital or financing on attractive terms;

our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets; and

terms we may provide to our investors to increase the percentage of transaction or other fees we may share with them.

***Our inability to raise additional or successor funds (or raise successor funds of a comparable size as our predecessor funds) could have a material adverse impact on our business.***

Our current private equity funds and certain other funds and investment vehicles have a finite life and a finite amount of commitments from investors. Once a fund nears the end of its investment period, our success depends on our ability to raise additional or successor funds in order to keep making investments and, over the long term, earning management fees (although our funds and investment vehicles generally continue to earn management fees at a reduced fee rate after the expiration of their investment periods). Even if we are successful in raising successor funds, to the extent we are unable to raise successor funds of a comparable size to our predecessor funds, our revenues may decrease as the investment period of our predecessor funds expire and associated fees

Table of Contents

decrease. For example, the size of our most recent private equity fund focused primarily on North America is expected to be smaller than its predecessor fund. Furthermore, in order to raise capital for new strategies and products without drawing capital away from our existing products, we will need to seek new sources of capital. Institutional investors that have suffered from decreasing returns, liquidity pressure, increased volatility or difficulty maintaining targeted asset allocations, may materially decrease or temporarily suspend making new fund investments. Such investors may elect to reduce their overall portfolio allocations to alternative investments such as private equity funds, resulting in a smaller overall pool of available capital in our industry. In addition, the asset allocation rules or regulations or investment policies to which such third-party investors are subject, could inhibit or restrict the ability of third-party investors to make investments in our investment funds. Coupled with a lack of distributions from their existing investment portfolios, many of these investors may have been left with disproportionately outsized remaining commitments to, and invested capital in, a number of investment funds, which significantly limited their ability to make new commitments to third-party managed investment funds such as those advised by us. Investors may also seek to redeploy capital away from certain of our fixed income vehicles, hedge fund or other investment vehicles, which permit redemptions on relatively short notice in order to meet liquidity needs or invest in other asset classes. We believe that our ability to avoid excessive redemption levels primarily depends on our funds' continued satisfactory performance, although redemptions may also be driven by other factors important to our investors, including their need for liquidity and compliance with investment mandates, even if our performance is superior. Any such redemptions would decrease our AUM and revenues. In addition, the "Volcker Rule" passed in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act is expected to severely limit or prohibit investments in private equity funds by U.S. banks (and in some cases non-U.S. banks) and could limit such investments by regulated insurance companies. Financial institutions have historically represented an important class of investors to us, including approximately 13% of our AUM as of December 31, 2011, and it is possible that other institutions will not be available to replace this traditional source of capital for our private equity funds. To the extent we are unable to raise additional or successor funds (or to raise successor funds of the same size as our predecessor funds), our AUM and revenues will likely decrease as the investment period of our predecessor funds expire and associated fees decrease.

***Our investors in future funds, including separately managed accounts, may negotiate to pay us lower management fees and the economic terms of our future funds may be less favorable to us than those of our existing funds, which could adversely affect our revenues.***

In connection with raising new funds or securing additional investments in existing funds, we negotiate terms for such funds and investments with investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than the terms of prior funds we have advised or funds advised by our competitors. For example such terms could restrict our ability to raise investment funds with investment objectives or strategies that compete with existing funds, reduce fee revenues we earn, reduce the percentage of profits on third-party capital in which we share, include a performance hurdle that requires us to generate a specified return on investment prior to our right to receive carried interest or add expenses and obligations for us in managing the fund or increase our potential liabilities. Our newest private equity fund focused on North America includes a performance hurdle that requires us to generate a 7% return on investment prior to receiving our share of fund gains. Furthermore, as institutional investors increasingly consolidate their relationships with investment firms and competition becomes more acute, we may receive more such requests to modify the terms in our new funds. Agreement to terms that are materially less favorable to us could result in a decrease in our profitability.

Certain institutional investors have also publicly criticized certain fund fee and expense structures, including management fees and transaction and advisory fees. We have received and expect to continue to receive requests from a variety of investors and groups representing investors to decrease fees and to modify our carried interest and incentive fee structures, which could result in a reduction or delay in the

Table of Contents

timing of receipt of the fees and carried interest and incentive fees we earn. In September of 2009, the Institutional Limited Partners Association, or "ILPA," published a set of Private Equity Principles, or the "Principles," which were revised in January 2011. The Principles were developed in order to encourage discussion between limited partners and general partners regarding private equity fund partnership terms. Certain of the Principles call for enhanced "alignment of interests" between general partners and limited partners through modifications of some of the terms of fund arrangements, including proposed guidelines for fees and carried interest structures. We provided ILPA our endorsement of the Principles, representing an indication of our general support for the efforts of ILPA.

In addition, certain institutional investors, including sovereign wealth funds and public pension funds, have demonstrated an increased preference for alternatives to the traditional investment fund structure, such as managed accounts, specialized funds and co-investment vehicles. We also have entered into strategic partnerships with individual investors whereby we manage that investor's capital across a variety of our products on separately negotiated terms. There can be no assurance that such alternatives will be as efficient as the traditional investment fund structure, and the impact such a trend could have on the cost of our operations or profitability, if widely implemented, is unclear. Moreover, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments in alternative assets without the assistance of private equity advisers like us. Such institutional investors may become our competitors and could cease to be our clients.

Any agreement to terms less favorable to us could adversely affect our revenues and profitability.

***The investment management business is intensely competitive, which could have a material adverse impact on our business.***

We compete as an investment manager for both investors and investment opportunities. The investment management business is highly fragmented, with our competitors consisting primarily of sponsors of public and private investment funds, business development companies, investment banks, commercial finance companies and operating companies acting as strategic buyers of businesses. We believe that competition for investors is based primarily on:

investment performance;

investor liquidity and willingness to invest;

investor perception of investment managers' drive, focus and alignment of interest;

business reputation;

the duration of relationships with investors;

the quality of services provided to investors;

pricing;

fund terms (including fees); and

the relative attractiveness of the types of investments that have been or will be made.

We believe that competition for investment opportunities is based primarily on the pricing, terms and structure of a proposed investment and certainty of execution.

A number of factors serve to increase our competitive risks:

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a number of our competitors in some of our businesses may have greater financial, technical, marketing and other resources and more personnel than we do;

investors may materially decrease their allocations in new funds in light of their experiences following an economic downturn or seek to consolidate their relationships with investment firms;

Table of Contents

some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do;

some of our competitors have agreed to terms on their investment funds or products that may be more favorable than our funds or products, such as lower management fees, greater fee sharing, or performance hurdles for carried interest, and therefore we may be forced to match or otherwise revise our terms to be less favorable than they have been in the past;

some of our funds may not perform as well as competitors' funds or other available investment products;

investors may reduce their investments in our funds or not make additional investments in our funds based upon their available capital or due to regulatory requirements;

our competitors have raised or may raise significant amounts of capital, and many of them have similar investment objectives and strategies to our funds, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit;

some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities;

some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments;

some of our competitors may be subject to less regulation or less regulatory scrutiny and accordingly may have more flexibility to undertake and execute certain businesses or investments than we do and/or bear less expense to comply with such regulations than we do;

there are relatively few barriers to entry impeding the formation of new funds, including a relatively low cost of entering these businesses, and the successful efforts of new entrants into our various lines of business, including major commercial and investment banks and other financial institutions, have resulted in increased competition;

some investors may prefer to invest with an investment manager that is not publicly traded, is smaller, or manages fewer investment products; and

other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment. Alternatively, we may experience decreased investment returns and increased risks of loss if we match investment prices, structures and terms offered by competitors. Moreover, if we are forced to compete with other investment firms on the basis of price, we may not be able to maintain our current fund fee, carried interest or other terms. There is a risk that fees and carried interest in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.





Table of Contents

In addition, if interest rates were to rise or if market conditions for competing investment products become or are favorable and such products begin to offer rates of return superior to those achieved by our funds, the attractiveness of our funds relative to investments in other investment products could decrease. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future funds, either of which would adversely impact our business, results of operations and cash flow.

***Our structure involves complex provisions of U.S. federal income tax laws for which no clear precedent or authority may be available. These structures also are subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.***

The U.S. federal income tax treatment of our unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax laws for which no clear precedent or authority may be available. You should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the Internal Revenue Service, or IRS, and the U.S. Department of the Treasury frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The present U.S. federal income tax treatment of owning our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. For instance, changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible for us to be treated as a partnership that is not taxable as a corporation for U.S. federal income tax purposes, affect the tax considerations of owning our common units, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely impact your investment in our common units. See the discussion below under " The U.S. Congress has considered legislation that would have (i) in some cases after a ten-year period, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (ii) taxed certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, the after tax income and gain related to our business, as well as the market price of our units, could be reduced." Our organizational documents and agreements give the Managing Partner broad authority to modify the amended and restated partnership agreement from time to time as the Managing Partner determines to be necessary or appropriate, without the consent of the unitholders, to address changes in U.S. federal, state and local income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all unitholders. For instance, the Managing Partner could elect at some point to treat us as an association taxable as a corporation for U.S. federal (and applicable state) income tax purposes. If the Managing Partner were to do this, the U.S. federal income tax consequences of owning our common units would be materially different. Moreover, certain assumptions and conventions will be applied in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to unitholders in a manner that reflects such unitholders' beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects our unitholders.

Table of Contents

*The U.S. Congress has considered legislation that would have (i) in some cases after a ten-year period, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (ii) taxed certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, the after tax income and gain related to our business, as well as the market price of our units, could be reduced.*

Over the past several years, a number of legislative and administrative proposals have been introduced and, in certain cases, have been passed by the U.S. House of Representatives. In May 2010 the U.S. House of Representatives passed legislation, or the "May 2010 House bill", that would have, in general, treated income and gains, including gain on sale, attributable to an interest in an investment services partnership interest, or "ISPI", as income subject to a new blended tax rate that is higher than under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Your interest in us, our interest in KKR Fund Holdings L.P. and the interests that KKR Fund Holdings L.P. holds in entities that are entitled to receive carried interest may have been classified as ISPIs for purposes of this legislation. The U.S. Senate considered but did not pass similar legislation. On February 14, 2012, Representative Levin introduced similar legislation, or the "2012 Levin bill", that would tax carried interest at ordinary income tax rates (which would be higher than the proposed blended rate under the May 2010 House bill). It is unclear when or whether the U.S. Congress will pass such legislation or what provisions will be included in any legislation, if enacted.

Both the May 2010 House bill and the 2012 Levin bill provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the rules discussed above would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation is enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations, possibly U.S. corporations. If we were taxed as a U.S. corporation or required to hold all ISPIs through corporations, our effective tax rate would increase significantly. The federal statutory rate for corporations is currently 35%. In addition, we could be subject to increased state and local taxes. Furthermore, you could be subject to tax on our conversion into a corporation or any restructuring required in order for us to hold our ISPIs through a corporation. KKR's principals and other professionals could face additional adverse tax consequences under the legislation, which might thereby adversely affect KKR's ability to offer attractive incentive opportunities for key personnel.

On September 12, 2011, the Obama administration submitted similar legislation to Congress in the American Jobs Act that would tax income and gain, now treated as capital gains, including gain on disposition of interests, attributable to an ISPI at rates higher than the capital gains rate applicable to such income under current law, with an exception for certain qualified capital interests. The proposed legislation would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the publicly traded partnership rules after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. This proposed legislation follows several prior statements by the Obama administration in support of changing the taxation of carried interest. Furthermore, in the proposed American Jobs Act, the Obama administration proposed that current law regarding the treatment of carried interest be changed for taxable years ending after December 31, 2012 to subject such income to ordinary income tax. In its published revenue proposal for 2013, the Obama administration proposed that the current law regarding treatment of carried interest be changed to subject such income to ordinary income tax. The Obama administration's published revenue proposals for 2010, 2011 and 2012 contained similar proposals.

States and other jurisdictions have also considered legislation to increase taxes with respect to carried interest. For example, New York has periodically considered legislation under which you could be subject to New York state income tax on income in respect of our common units as a result of

Table of Contents

certain activities of our affiliates in New York, although it is unclear when or whether such legislation will be enacted.

***Additional proposed changes in the U.S. taxation of businesses could adversely affect us.***

On February 22, 2012, the Obama administration announced its framework of key elements to change the U.S. federal income tax rules for businesses. Few specifics were included, and it is unclear what any actual legislation could provide, when it would be proposed or what its prospects for enactment could be. Several parts of the framework if enacted could adversely affect us. First, the framework could reduce the deductibility of interest for corporations in some manner not specified. A reduction in interest deductions could increase our tax rate and thereby reduce cash available for distribution to investors or for other uses by us. Such a reduction could also limit our ability to finance new transactions and increase the effective cost of financing by companies in which we invest, which could reduce the value of our carried interest in respect of such companies. The framework could also reduce the top marginal tax rate on corporations from 35% to 28%. The framework also suggests that some entities currently treated as partnerships for tax purposes could be subject to an entity-level income tax similar to the corporate income tax. If such a proposal caused us to be subject to additional entity-level taxes, it could reduce cash available for distribution to investors or for other uses by us. The framework reiterates the President's support for treatment of carried interest as ordinary income, as provided in the President's revenue proposal for 2013 described above. However, whether the President's framework will actually be enacted by the government is unknown, and the ultimate consequences of tax reform legislation, if any, are also presently not known.

***We depend on our founders and other key personnel, the loss of whose services could have a material adverse effect on our business, results and financial condition.***

We depend on the efforts, skills, reputations and business contacts of our principals, including our founders, Henry Kravis and George Roberts, and other key personnel, the information and deal flow they and others generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals. Accordingly, our success depends on the continued service of these individuals, who are not obligated to remain employed with us. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow AUM in existing funds or raise additional funds in the future.

Our principals and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds and members of the business community and result in the reduction of AUM or fewer investment opportunities. For example, if any of our principals were to join or form a competing firm, our business, results and financial condition could suffer.

Furthermore, the agreements governing our private equity funds and certain non-private equity investment funds managed by us provide that in the event certain "key persons" in these funds (for example, both of Messrs. Kravis and Roberts, and, in the case of certain geographically or product focused funds, one or more of the executives focused on such funds) generally cease to actively manage a fund, investors in the fund will be entitled to: (i) in the case of our private equity funds, reduce, in whole or in part, their capital commitments available for further investments; and (ii) in the case of certain of our fixed income or other non-private equity investment funds, withdraw all or any portion of their capital accounts, in each case on an investor-by-investor basis (which could lead possibly to a liquidation of those funds). The occurrence of such an event would likely have a significant negative impact on our revenue, net income and cash flow.

Table of Contents

*If we cannot retain and motivate our principals and other key personnel and recruit, retain and motivate new principals and other key personnel, our business, results and financial condition could be adversely affected.*

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our principals and other professionals, and to a substantial degree on our ability to retain and motivate our principals and other key personnel and to strategically recruit, retain and motivate new talented personnel, including new principals. However, we may not be successful in these efforts as the market for qualified investment professionals is extremely competitive. Our ability to recruit, retain and motivate our professionals is dependent on our ability to offer highly attractive incentive opportunities. If legislation, such as the legislation proposed in April 2009 (and repropounded in 2010 and 2012) were to be enacted, income and gains recognized with respect to carried interest would be treated for U.S. federal income tax purposes as ordinary income rather than as capital gain. Such legislation would materially increase the amount of taxes that we, our principals and other professionals would be required to pay, thereby adversely affecting our ability to offer such attractive incentive opportunities. See " Risks Related to U.S. Taxation". In addition, there are pending laws and regulations that seek to regulate the compensation of certain of our employees. See " Extensive Regulation of our business affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could result in additional burdens on our business." The loss of even a small number of our investment professionals could jeopardize the performance of our funds and other investment products, which would have a material adverse effect on our results of operations. Efforts to retain or attract investment professionals may result in significant additional expenses, which could adversely affect our profitability.

Our principals generally hold interests in our business through KKR Holdings. These individuals currently receive financial benefits from our business in the form of distributions and amounts funded by KKR Holdings and through their direct and indirect participation in the value of KKR Group Partnership Units held by KKR Holdings. While all of our employees and our principals receive base salaries from us, profit-based cash amounts for certain individuals currently are borne by KKR Holdings from cash reserves based upon distributions on a portion of KKR Group Partnership Units held by KKR Holdings. There can be no assurance that KKR Holdings will have sufficient cash available to continue to make profit-based cash payments and we expect to pay a portion, or eventually all, of these cash bonus payments as KKR Holdings becomes unable to reserve cash for bonus compensation as our principals who hold equity interests through KKR Holdings become entitled to the cash distributions on the KKR Group Partnership Units held by KKR Holdings. Moreover, in connection with the Transactions in October 2009, we made large grants of KKR Holdings units that vest in installments over a five year period commencing October 1, 2009. Our principals may also receive additional equity interests in our business through equity awards granted by KKR Holdings, which does not cause any dilution. However, we have granted and will grant some or all of the types of equity awards historically granted by KKR Holdings from our Equity Incentive Plan, particularly as the KKR Holdings units granted in October 2009 vest, which will cause dilution. In addition, we may be unwilling to grant our employees additional significant equity awards in our business, and the value of the grants and distributions they receive in respect of their existing awards may be lower than anticipated. This may limit our ability to attract, retain and motivate talented personnel. In order to recruit and retain existing and future investment professionals, we may need to increase the level of compensation that we pay to them, which may cause a higher percentage of our revenue to be paid out in the form of compensation, which would have an adverse impact on our profit margins.

In addition, there is no guarantee that the confidentiality and restrictive covenant agreements to which our principals are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. These agreements will expire after a certain period of time, at which point each of our principals would be free to compete against us and solicit investors in our funds, clients and employees. Depending on which entity is a party to these agreements and/or the laws applicable to

Table of Contents

them, we may not be able to enforce them or become subject to lawsuits or other claims, and these agreements might be waived, modified or amended at any time without our consent. See "Certain Relationships and Related Transactions, and Director Independence Confidentiality and Restrictive Covenant Agreements."

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain our culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

***Operational risks may disrupt our businesses, result in losses or limit our growth.***

We rely heavily on our financial, accounting and other data processing systems. If any of these systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to our funds, regulatory intervention or reputational damage. In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, may be subject to security risks, and the cost of maintaining such systems may increase from our current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on our business. Furthermore, we depend on our principal offices in New York City, where most of our administrative personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our principal offices, could have a material adverse impact on our ability to continue to operate our business without interruption. Our business continuation or disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all. Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, theft, misuse, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our investors' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our investors', our counterparties' or third parties' operations, which could result in significant losses, increased costs or reputational damage. Finally, we rely on third party service providers for certain aspects of our business, including for certain information systems, technology, administration, tax and compliance matters. Any interruption or deterioration in the performance of these third parties could impair the quality of our and our funds' operations and could impact our reputation and adversely affect our businesses and limit our ability to grow.

***The time and attention that our principals and other employees devote to entities that were not contributed to the KKR Group Partnerships as part of the Transactions will not financially benefit the KKR Group Partnerships and may reduce the time and attention these individuals devote to the KKR Group Partnerships' business.***

We may continue to provide funds that were not contributed to the KKR Group Partnerships, including the 1996 Fund, with management and other services until their liquidation. While we will not receive meaningful fees for providing these services, our principals and other employees will be required to devote a portion of their time and attention to the management of those entities. The devotion of the time and attention of our principals and employees to those activities will not financially benefit the KKR Group Partnerships and may reduce the time and attention they devote to the KKR Group Partnerships' business.

Table of Contents

***Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.***

We intend, to the extent that market conditions warrant, to seek to grow our businesses by increasing AUM in existing businesses, pursuing new investment strategies, including investment opportunities in new asset classes, developing new types of investment structures and products (such as managed accounts and structured products), and expanding into new geographic markets and businesses. We have in recent years opened offices in Asia and the Middle East, and also developed a capital markets business in the United States, Europe, the Middle East and Asia-Pacific, which we intend to grow and diversify. We have also launched a number of new investment initiatives in areas such as real estate, oil and gas, infrastructure and hedge funds. We may pursue growth through acquisitions of other investment management companies, acquisitions of critical business partners or other strategic initiatives, which may include entering into new lines of business. In addition, we expect opportunities will arise to acquire other alternative or traditional investment managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with:

the required investment of capital and other resources;

the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk or liability or have not appropriated planned for such activities;

the possibility of diversion of management's attention from our core business;

the possibility of disruption of our ongoing business;

combining, integrating or developing operational and management systems and controls;

potential increase in investor concentration; and

the broadening of our geographic footprint, including the risks associated with conducting operations in foreign jurisdictions, including taxation.

Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

***We may not be successful in executing upon or managing the complexities of new investment strategies, markets and businesses, which could adversely affect our business, results of operations and financial condition.***

Our growth strategy is based, in part, on the expansion of our platform through selective investment in, and development or acquisition of, businesses and investment strategies complementary to our business. The expansion into new products and geographies has demanded greater management attention and dedication of resources to manage the increasing complexity of operations and regulatory compliance. This growth strategy involves a number of risks, including the risk that the expected synergies from a newly developed product or strategic alliance will not be realized, that the expected results will not be achieved, that new strategies are not appropriately planned for or integrated into the firm, that the new strategies may conflict, detract from or compete against our existing businesses, that the investment process, controls and procedures that we have developed around our existing platform will prove insufficient or inadequate or that our information systems and technology, including related security systems, may prove to be inadequate. We may also incur significant charges in connection with such investments, which ultimately may result in significant losses and costs. Such losses could adversely impact our business, results of operations and financial condition, as well as do harm to our professional reputation.



Table of Contents

***If we are unable to syndicate the securities or indebtedness or realize returns on investments financed with our principal assets, our liquidity, business, results of operations and financial condition could be adversely affected.***

Our principal assets provide us with a significant source of capital to grow and expand our business, increase our participation in our transactions and underwrite commitments in our capital markets business. Our principal assets have provided a source of capital to underwrite loans, securities or other financial instruments, which we generally expect to syndicate to third parties. To the extent that we are unable to do so, we may be required to sell such investments at a significant loss or hold them indefinitely. Furthermore, if we are required retain investments on our balance sheet for an extended period of time, the ability of our capital markets business to complete transactions would be impaired and the results of our business would suffer. In addition, as our principal assets have been a significant source of financing for new strategies, to the extent that such strategies are not successful or our principal assets cease to provide adequate liquidity, we would be limited in our ability to seed new businesses or support our existing business as effectively as contemplated.

***Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could adversely affect our business.***

Our business is subject to extensive regulation. We are subject to regulation, including periodic examinations, by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of applicable licenses and memberships. Even if an investigation or proceeding does not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients and investors or fail to gain new clients and investors.

As a result of market disruptions in the past years as well as highly publicized financial scandals, regulators and investors exhibited concerns over the integrity of the U.S. and global financial markets. In response, regulators in the United States and elsewhere launched a program of regulatory reform that has broad implications for us and for our funds, as well as for many of the markets in which we and they operate. In addition, recently the private equity industry has come under increased political, regulatory and news media scrutiny with politicians, governmental officials, and regulators focusing on the taxation of carried interest and the private equity industry's allocation of expenses to the funds and valuation practices. Any changes in the regulatory framework applicable to our business, including the changes and potential changes described below, as well as adverse news media attention, may impose additional expenses or capital requirements on us, limit our fundraising for our investment products, result in limitations in the manner in which our business is conducted, have an adverse impact upon our financial condition, results of operations or prospects, impair executive retention or recruitment and require substantial attention by senior management. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed or may become law on our business or the markets in which we operate. If enacted, any new regulation or regulatory framework could negatively impact our funds and us in a number of ways, including increasing our costs and the cost for our funds of investing, borrowing or hedging, increasing the funds' or our regulatory costs, imposing additional burdens on the funds' or our staff, and potentially requiring the disclosure of sensitive information. In addition, we may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. New laws or regulations could make compliance more difficult, more expensive or affect



Table of Contents

the manner in which we conduct business. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations and new or enhanced reporting requirements of the trading and other investment activities of alternative investment management funds and firms, including our funds and us. Such investigations and reporting obligations will likely impose additional expenses on us, may require the attention of senior management and increase the complexity of managing our business and may result in fines if we or any of our funds are deemed to have violated any regulations.

Recently, there have been a number of legislative or regulatory proposals affecting the financial sector in the United States. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, that President Obama signed into law on July 21, 2010, creates a significant amount of new regulation. The Dodd-Frank Act:

establishes the Financial Stability Oversight Council, or FSOC, a federal agency charged with, among other things, designating systemically important nonbank financial companies for heightened prudential supervision and making recommendations regarding the imposition of enhanced standards regarding capital, leverage, conflicts and other requirements for financial firms deemed to pose a systemic threat to the financial health of the U.S. economy;

requires private equity and hedge fund advisers to register with the SEC under the Investment Advisers Act (as described elsewhere in this report, Kohlberg Kravis Roberts & Co. L.P. and its wholly-owned subsidiary KKR Asset Management LLC are registered with the SEC as investment advisers under the Investment Advisers Act), to maintain extensive records and to file reports if deemed necessary for purposes of systemic risk assessment by certain governmental bodies;

authorizes federal regulatory agencies to review and, in certain cases, prohibit compensation arrangements at financial institutions that give employees incentives to engage in conduct deemed to encourage inappropriate risk taking by covered financial institutions;

requires public companies to adopt and disclose policies requiring, in the event the company is required to issue an accounting restatement, the clawback of related incentive compensation from current and former executive officers;

restricts the ability of banking organizations to sponsor or invest in private equity and hedge funds;

grants the U.S. government resolution authority to liquidate or take emergency measures with regard to troubled financial institutions that fall outside the existing resolution authority of the Federal Deposit Insurance Corporation, or FDIC; and

creates a Consumer Financial Protection Bureau within the U.S. Federal Reserve.

Many of these provisions are subject to further rule making and to the discretion of regulatory bodies, such as the FSOC. For example, the following rulemaking has been enacted and the following notices of proposed rulemakings have recently been announced that may apply to us or our subsidiaries:

On October 11, 2011, the FSOC issued a proposed rule and interpretive guidance regarding the process by which it will designate nonbank financial companies as systemically important. The regulation details a three-stage process, with the level of scrutiny increasing at each stage. During the first stage, the FSOC will apply a broad set of uniform quantitative metrics to identify financial companies that warrant additional review. The FSOC will consider whether a company has at least \$50 billion in total consolidated assets and whether it meets other thresholds relating to credit default swaps outstanding, derivative liabilities, loans and bonds outstanding, a minimum leverage ratio of total consolidated assets to total equity of 15 to 1, and

Table of Contents

a short-term debt ratio of debt (with maturities less than 12 months) to total consolidated assets of 10%. A company that meets both the asset test and one of the other thresholds will be subject to additional review. Although we believe we should not currently be designated as systemically important under the criteria outlined above, the designation criteria as well as our business are likely to evolve over time. Additional uncertainty is created because the FSOC retains authority to designate any nonbank financial company, even if it does not meet the proposed criteria, and the proposed rule states that the FSOC will consider whether to establish "an additional set of metrics or thresholds tailored to evaluate hedge funds and private equity firms and their advisers." The proposed rule notes that less regulatory data is generally available for hedge funds and private equity firms, but indicates that, in developing any such additional metrics or thresholds, it intends to review financial disclosures that private fund advisers will be required to file with the SEC and CFTC beginning in 2012, as further described below. If the FSOC were to determine that we were a systemically important nonbank financial company, we would be subject to a heightened degree of regulation, which could include a requirement to adopt heightened standards relating to capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and being subject to annual stress tests by the Federal Reserve Bank. There can be no assurance that nonbank financial firms such as us will not become subject to the aforementioned restrictions or other requirements for financial firms deemed to be systemically significant to the financial health of the U.S. economy.

The Dodd-Frank Act, under what has become known as the "Volcker Rule," generally prohibits depository institution holding companies (including foreign banks with U.S. branches and insurance companies with U.S. depository institution subsidiaries), insured depository institutions and subsidiaries and affiliates of such entities from investing in or sponsoring private equity funds or hedge funds. The Volcker Rule will become effective on July 21, 2012 and is subject to certain transition periods and exceptions for certain permitted activities that would enable certain institutions subject to the Volcker Rule to continue investing in private equity funds under certain conditions. Although there is uncertainty regarding the implementation of the Volcker Rule and its practical implications, there could be adverse implications for our ability to raise funds from the types of entities mentioned above as a result of this prohibition. On October 11, 2011, the Federal Reserve and other federal regulatory agencies issued a proposed rule implementing the Volcker Rule.

On October 26, 2011, the SEC adopted a new rule requiring certain advisers to private funds to periodically file reports on a new Form PF. Large private fund advisers including advisers with at least \$1.5 billion in assets under management attributable to hedge funds and advisers with at least \$2 billion in assets under management attributable to private equity funds would be subject to more detailed and in certain cases more frequent reporting requirements. The information will be used by the FSOC in monitoring risks to the U.S. financial system.

On February 8, 2011, the Federal Reserve Board proposed a rule establishing the requirements for determining if a company is "predominantly engaged in financial activities" and defines the terms "significant nonbank financial company" and "significant bank holding company." In particular, the rule would define a "significant nonbank financial company" to mean (i) any systemically important nonbank financial company designated by the FSOC and (ii) any other nonbank financial company with \$50 billion or more in total consolidated assets as determined in accordance with applicable accounting standards.

On March 2, 2011, the SEC proposed a rule as part of a joint rule-making effort with federal banking regulators designed to prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses. The proposed rule would cover financial

Table of Contents

institutions with total consolidated assets of at least \$1 billion, including investment advisers and broker-dealers, and provide heightened requirements for financial institutions with total consolidated assets of at least \$50 billion. The application of this rule to us could require us to substantially revise our compensation strategy and affect our ability to recruit and retain qualified employees.

The Dodd-Frank Act amends the Exchange Act to compensate and protect whistleblowers who voluntarily provide original information to the SEC and establishes a fund to be used to pay whistleblowers who will be entitled to receive a payment equal to between 10% and 30% of certain monetary sanctions imposed in a successful government action resulting from the information provided by the whistleblower.

As mandated by the Dodd-Frank Act, the Commodity Futures Trading Commission, or CFTC, has proposed or adopted a series of rules to establish a comprehensive new regulatory framework for swaps and security-based swaps. For example in November 2011, the CFTC finalized rules instituting position limits on certain commodity futures contracts, as well as any futures and swaps that are economically equivalent. Absent an applicable exemption, the regulations would require aggregation of positions in accounts in which any person, directly or indirectly, holds an ownership or equity interest of 10% or more, as well as accounts over which that person controls trading. To the extent that we do not qualify for an exemption, we may be required to aggregate the positions of our various investment funds and the positions of our portfolio companies. Although the scope of the new regulatory framework is unclear, these and other new rules may require us and our portfolio companies to limit our trading activities, and in addition, our funds may have difficulty completing otherwise profitable acquisitions in particular industries or may generate profits that are lower than would otherwise be the case.

The Dodd-Frank Act imposes other regulatory requirements on the trading of swaps, including requirements that most swaps be executed on an exchange or "swap execution facility" and cleared through a clearing house, and that entities acting as dealers or "major swap participants" register in the appropriate category and comply with capital, margin, record-keeping and reporting and business conduct rules. The imposition of these requirements could increase the cost of trading in the derivative markets, which could in turn make it more expensive and difficult for our funds to enter into swaps and other derivatives in the normal course of their business. Moreover, these increased regulatory responsibilities and increased costs could reduce trading levels in the derivative markets by a number of market participants, which could in turn adversely impact liquidity in the markets and expose our funds to greater risks in connection with their trading activities.

In November 2010, the European Parliament and the Council of Ministers adopted the EU Directive on Alternative Investment Fund Managers, or AIFM. The Directive will apply to AIFMs established in the EU and to non-EU AIFMs marketing securities of alternative investment funds, or AIFs, in the EU, subject to certain exemptions. AIFMs established in the EU would be required to seek authorization from their home jurisdiction regulators. EU member states will be required to implement the Directive into national law, and it is expected that it will become applicable in EU member states in mid-2013. Non-EU AIFMs will be ineligible for an EU-wide passport under the Directive until the Commission adopts an implementing measure permitting such registration. Non-EU AIFMs that do not register under the Directive may continue to market fund interests to EU professional investors if and to the extent permitted under national law, subject to certain minimum conditions. The Directive will impose new operating requirements on registered AIFMs, including rules on the structure of remuneration for certain personnel, a threshold for regulatory capital and leverage limits, as well as reporting obligations in respect of controlled EU portfolio companies. Such rules could have an adverse effect on our businesses by, among other things, (i) imposing disclosure obligations and restrictions on distributions by EU portfolio companies of the funds we manage, (ii) significantly restricting marketing activities, (iii) potentially requiring changes in our compensation structures for key personnel, thereby potentially affecting our ability to recruit and retain these

Table of Contents

personnel, and (iv) potentially in effect restricting our funds' investments in companies based in EU countries. The Directive could limit, both in absolute terms and in comparison to EU-based investment managers and funds, our operating flexibility, our ability to market our funds, and our fund raising and investment opportunities, as well as expose us to conflicting regulatory requirements in the United States and the EU.

On January 1, 2011, an amendment to the Capital Requirements Directive (CRD III) entered into force. Among other things, CRD III requires EU member states to introduce stricter controls on remuneration for key employees and risk takers within specified credit institutions and investment firms. The Committee of European Banking Supervisors, or CEBS, published guidelines on the implementation of CRD III in December 2010. Also in December 2010, the UK Financial Services Authority, or FSA, amended its Remuneration Code to reflect CRD III. One of our subsidiaries established in the UK is subject to CRD III. CRD III required changes in our compensation structures for key personnel of this subsidiary, thereby potentially affecting its ability to recruit and retain these personnel.

In 2010, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States, finalized a comprehensive set of capital and liquidity standards, commonly referred to as "Basel III," for internationally active banking organizations. These new standards, which are expected to be fully phased in by 2019, are expected to require banks to hold more capital, predominantly in the form of common equity, than under the current capital framework. Implementation of Basel III will require implementing regulations and guidelines by member states including changes to the existing Capital Requirements Directive, known as CRD IV, and U.S. federal banking regulators, which have expressed support for Basel III, and are expected to issue proposed regulations in 2012. Compliance with the Basel III standards may result in significant costs to banks, which in turn may result in higher borrowing costs for the private sector and reduced access to certain types of credit. Basel III may increase the cost of borrowing by our funds and portfolio companies, which may result in fewer investments being acquired or disposed, lower returns, a decrease in valuations of our investments, or an inability to refinance debt on economic terms. See " Changes in the debt financing markets may negatively impact the ability of our private equity funds and their portfolio companies to obtain attractive financing for their investments and may increase the cost of such financing if it is obtained, which could lead to lower yielding investments and potentially decrease our net income."

In October 2011, the Financial Stability Board, or FSB, issued a report that recommended strengthening oversight and regulation of the so-called shadow banking system in the European Union, broadly described as credit intermediation involving entities and activities outside the regular banking system. The report outlined initial steps to define the scope of the shadow banking system and proposed general governing principles for a monitoring and regulatory framework. While at this stage it is difficult to predict the scope of any new regulations, if such regulations were to extend the regulatory and supervisory requirements, such as capital and liquidity standards, currently applicable to banks, to our funds considered to be engaged in "shadow banking", the regulatory and operating costs of our affected businesses would increase and may become prohibitive.

We regularly rely on exemptions in the United States from various requirements of the Securities Act, the Exchange Act, the Investment Company Act of 1940, or Investment Company Act, and the U.S. Employee Retirement Income Security Act of 1974, or ERISA, in conducting our investment management activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third-party claims and our business could be materially and adversely affected. See " Risks Related to Our Organizational Structure If we were deemed to be an "investment company" subject to regulation

Table of Contents

under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business."

Other requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our funds and are not designed to protect holders of interests in our business. Consequently, these regulations often serve to limit our activities. In addition, the regulatory environment in which our funds or their investors operate may affect our business. For example, changes in antitrust laws or the enforcement of antitrust laws could affect the level of mergers and acquisitions activity, and changes in state or other local laws may limit investment activities of state pension plans or insurance companies. We may also be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other governmental regulatory authorities including foreign regulatory authorities or self-regulatory organizations that supervise the financial markets.

We are also subject to a number of laws and regulations governing payments and contributions to political persons or other third parties, including restrictions imposed by the Foreign Corrupt Practices Act, or FCPA, as well as trade sanctions administered by the Office of Foreign Assets Control, or OFAC, and the U.S. Department of Commerce. The FCPA is intended to prohibit bribery of foreign governments and their officials and political parties, and requires public companies in the United States to keep books and records that accurately and fairly reflect those companies' transactions. OFAC and the U.S. Department of Commerce administer and enforce economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations and individuals. These laws and regulations relate to a number of aspects of our business, including servicing existing investors, finding new investors, and sourcing new investments, as well as activities by the portfolio companies in our investment portfolio or other controlled investments. Similar laws in non-U.S. jurisdictions, such as EU sanctions or the U.K. Bribery Act, as well as other applicable anti-bribery, anti-corruption, anti-money laundering or sanction laws in the U.S. and abroad, may also impose stricter or more onerous requirements than the FCPA, OFAC and the U.S. Department of Commerce, and implementing them may disrupt our business or cause us to incur significantly more costs to comply with those laws. Different laws may also contain conflicting provisions, making compliance with all laws more difficult. If we fail to comply with these laws and regulations, we could be exposed to claims for damages, financial penalties, reputational harm, incarceration of our employees, restrictions on our operations and other liabilities, which could negatively affect our business, operating results and financial condition. In addition, we may be subject to successor liability for FCPA violations or other acts of bribery committed by companies in which we or our funds invest or which we or our funds acquire.

In June 2010, the SEC approved Rule 206(4)-5 under the Advisers Act regarding "pay to play" practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients. Among other restrictions, the rule prohibits investment advisers from providing advisory services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser's employees and engagements of third parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance with the rule. There has also been similar rule-making on a state-level regarding "pay to play" practices by investment advisers, including in California and New York. Any failure on our part to comply with these rules could cause us to lose compensation for our advisory services or expose us to significant penalties and reputational damage.

Certain laws to which we are subject, such as certain environmental laws, takeover laws, anti-bribery and anti-corruption laws and antitrust laws, may impose requirements on us and our

Table of Contents

portfolio companies as an affiliated group and, in some cases, impose concepts such as joint and several liability or notification obligations on affiliates. For example, the United Kingdom introduced a CRC Energy Efficiency Scheme which requires, under certain circumstances, that funds, general partners and portfolio companies participate in the scheme as a single organization and aggregate the energy supplies made to each of them. In addition, the scheme imposes joint and several liability for compliance on the entities within the organization. Similarly, our portfolio companies may be subject to contractual obligations which may impose obligations or restrictions on their affiliates. The interpretation of such contractual provisions will depend on local laws. Given that we do not control all of our portfolio companies and that our portfolio companies generally operate independently of each other, there is a risk that we could contravene one or more of such laws, regulations and contractual arrangements due to limited access and opportunities to monitor compliance. In addition, compliance with these laws or contracts could require us to commit significant resources and capital towards information gathering and monitoring thereby increasing our operating costs.

Our operations are subject to regulation and supervision in a number of domestic and foreign jurisdictions, and the level of regulation and supervision to which we are subject varies from jurisdiction to jurisdiction and is based on the type of business activity involved. See "Business Regulation."

***We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.***

The investment decisions we make in our investment management business and the activities of our investment professionals on behalf of our portfolio companies may subject them and us to the risk of third-party litigation arising from investor dissatisfaction with the performance of our funds, the activities of our portfolio companies and a variety of other litigation claims. See the section entitled "Litigation" appearing in Note 13 "Commitments and Contingencies" of our financial statements included elsewhere in this report. By way of example, we, our funds and certain of our employees are each exposed to the risks of litigation relating to investment activities in our funds and actions taken by the officers and directors (some of whom may be KKR employees) of portfolio companies, such as the risk of shareholder litigation by other shareholders of public companies or holders of debt instruments of companies in which our funds have significant investments. We are also exposed to risks of litigation or investigation in the event of any transactions that presented conflicts of interest that were not properly addressed.

To the extent investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our investment funds, our principals or our affiliates under federal securities law and state law. Investors in our funds do not have legal remedies against us, the general partners of our funds, our funds, our principals or our affiliates solely based on their dissatisfaction with the investment performance of those funds. While the general partners and investment advisers to our investment funds, including their directors, officers, other employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our investment funds, such indemnity generally does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

If any lawsuits were brought against us and resulted in a finding of substantial legal liability, the lawsuit could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously impact our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and to pursue investment opportunities for our funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our

Table of Contents

investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

In addition, with a workforce composed of many highly paid professionals, we face the risk of litigation relating to claims for compensation or other damages, which may, individually or in the aggregate, be significant in amount. The cost of settling any such claims could negatively impact our business, financial condition and results of operations.

***Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm.***

There is a risk that our principals and employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our business and our authority over the assets we manage. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships, as well as face potentially significant litigation. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If any of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

***We are subject to risks in using prime brokers, custodians, administrators and other agents.***

Certain of our investment funds and our Capital Markets and Principal Activities business depend on the services of prime brokers, custodians, administrators and other agents to carry out certain securities transactions. In the event of the insolvency of a prime broker and/or custodian, our funds may not be able to recover equivalent assets in full as they will rank among the prime broker's and custodian's unsecured creditors in relation to assets which the prime broker or custodian borrows, lends or otherwise uses. In addition, our and our funds' cash held with a prime broker or custodian may not be segregated from the prime broker's or custodian's own cash, and our funds therefore may rank as unsecured creditors in relation thereto. The inability to recover assets from the prime broker or custodian could have a material impact on the performance of our funds and our business, financial condition and results of operations.

**Risks Related to the Assets We Manage**

As an investment manager, we sponsor and manage funds and vehicles that make investments worldwide on behalf of third-party investors and, in connection with those activities, are required to deploy our own capital in those investments. The investments of these funds and vehicles are subject to many risks and uncertainties which, to the extent they are material, are discussed below. In addition, we have principal investments and manage those assets on our own behalf. As a result, the gains and losses on such assets are reflected in our net income and the risks set forth below relating to the assets that we manage will directly affect our operating performance.

***The historical returns attributable to our funds, including those presented in this report, should not be considered as indicative of the future results of our funds or of our future results or of any returns on our common units.***

We have presented in this report certain information relating to our investment returns, such as net and gross IRRs, multiples of invested capital and realized and unrealized investment values for funds that we have sponsored and managed. The historical and potential future returns of the funds that we manage are not directly linked to returns on KKR Group Partnership Units.

Table of Contents

Moreover, historical returns of our funds may not be indicative of the future results that you should expect from us, which could negatively impact the fees and incentive amounts received by us from such funds. In particular, our funds' future results may differ significantly from their historical results for the following reasons:

the rates of returns of our funds reflect unrealized gains as of the applicable valuation date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments;

the historical returns that we present in this report derive largely from the performance of our earlier private equity funds, whereas future fund returns will depend increasingly on the performance of our newer funds, which may have little or no investment track record, and in particular you will not benefit from any value that was created in our funds prior to the Transactions to the extent such value has been realized and we may be required to repay excess amounts previously received in respect of carried interest in our funds if, upon liquidation of the fund, we have received carried interest distributions in excess of the amount to which we were entitled;

the future performance of our funds will be affected by macroeconomic factors, including negative factors arising from recent disruptions in the global financial markets that were not prevalent in the periods relevant to the historical return data included in this report;

in some historical periods, the rates of return of some of our funds have been positively influenced by a number of investments that experienced a substantial decrease in the average holding period of such investments and rapid and substantial increases in value following the dates on which those investments were made; the actual or expected length of holding periods related to investments is likely longer than such historical periods; those trends and rates of return may not be repeated in the future;

our newly established funds may generate lower returns during the period that they take to deploy their capital;

our funds' returns have benefited from investment opportunities and general market conditions in certain historical periods that may not repeat themselves, and there can be no assurance that our current or future funds will be able to avail themselves of comparable investment opportunities or market conditions; and

we may create new funds and investment products in the future that reflect a different asset mix in terms of allocations among funds, investment strategies, geographic and industry exposure, vintage year and economic terms.

In addition, our historical rates of return reflect our historical cost structure, which may vary in the future, and future returns will be affected by the risks described elsewhere in this report, including risks of the industry sectors and businesses in which a particular fund invests and changes in laws. See " Risks Related to our Business " Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition."

***Valuation methodologies for certain assets in our funds can be subjective and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.***

There are no readily ascertainable market prices for a substantial majority of illiquid investments of our investment funds and our finance vehicles. When determining fair values of investments, we use the last reported market price as of the statement of financial condition date for investments that have



Table of Contents

readily observable market prices. When an investment does not have a readily available market price, the fair value of the investment represents the value, as determined by us in good faith, at which the investment could be sold in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. There is no single standard for determining fair value in good faith and in many cases fair value is best expressed as a range of fair values from which a single estimate may be derived. When making fair value determinations, we typically use a market multiples approach that considers a specified financial measure (such as EBITDA) and/or a discounted cash flow analysis. We also consider a range of additional factors that we deem relevant, including the applicability of a control premium or illiquidity discount, the presence of significant unconsolidated assets and liabilities, any favorable or unfavorable tax attributes, the method of likely exit, financial projections, estimates of assumed growth rates, terminal values, discount rates including risk free rates, capital structure, risk premiums and other factors, and determining these factors may involve a significant degree of our management's judgment and the judgment of management of our portfolio companies. Changes in these factors can have a significant effect on the results of the valuation methodologies used to value our portfolio, and our reported fair values for these assets could vary materially if the inputs and other assumptions used from prior quarters were to change significantly. For example, if applicable interest rates rise, then the assumed cost of capital for these assets would be expected to increase under a discounted cash flow analysis, and this effect would negatively impact their valuations if not offset by other factors. Conversely, a fall in interest rates would be expected to positively impact valuations of these assets if not offset by other factors.

Because valuations, and in particular valuations of investments for which market quotations are not readily available, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed. Even if market quotations are available for our investments, such quotations may not reflect the value that we would actually be able to realize because of various factors, including possible illiquidity. Our partners' capital could be adversely affected if the values of investments that we record is materially higher than the values that are ultimately realized upon the disposal of the investments and changes in values attributed to investments from quarter to quarter may result in volatility in our AUM and such changes could materially affect the results of operations that we report from period to period. There can be no assurance that the investment values that we record from time to time will ultimately be realized and that you will be able to realize the investment values that are presented in this report.

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of investments reflected in an investment fund's or finance vehicle's net asset value, or NAV, do not necessarily reflect the prices that would actually be obtained by us on behalf of the fund or finance vehicle when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund NAVs would result in losses for the applicable fund and the loss of potential carried interest and other fees. Also, if realizations of our investments produce values materially different than the carrying values reflected in prior fund NAVs, investors may lose confidence in us, which could in turn result in difficulty in raising capital for future funds.

Even if market quotations are available for our investments, such quotations may not reflect the value that could actually be realized because of various factors, including the possible illiquidity associated with a large ownership position, subsequent illiquidity in the market for a company's securities, future market price volatility or the potential for a future loss in market value based on poor industry conditions or the market's view of overall company and management performance.

In addition, because we value our entire portfolio only on a quarterly basis, subsequent events that may have a material impact on those valuations may not be reflected until the next quarterly valuation date.

Table of Contents

***Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.***

Because many of our funds' investments rely heavily on the use of leverage, our ability to achieve attractive rates of return on investments will depend on our continued ability to access sufficient sources of indebtedness at attractive rates. For example, our fixed income funds use varying degrees of leverage when making investments. Similarly, in many private equity investments, indebtedness may constitute up to 70% or more of a portfolio company's total debt and equity capitalization, including debt that may be incurred in connection with the investment, and a portfolio company's indebtedness may also increase in recapitalization transactions subsequent to the company's acquisition. The absence of available sources of sufficient debt financing for extended periods of time could therefore materially and adversely affect our funds and our portfolio companies. Also, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness such as we experienced during 2009 would make it more expensive to finance those investments. In addition, increases in interest rates could decrease the value of fixed-rate debt investments that our finance vehicles or our funds make. Increases in interest rates could also make it more difficult to locate and consummate private equity and other investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Capital markets are volatile, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment.

Investments in highly leveraged entities are also inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

subject the entity to a number of restrictive covenants, terms and conditions, any violation of which would be viewed by creditors as an event of default and could materially impact our ability to realize value from our investment;

allow even moderate reductions in operating cash flow to render it unable to service its indebtedness;

give rise to an obligation to make mandatory prepayments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities;

limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt;

limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth; and

limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or other general corporate purposes.

A leveraged company's income and equity also tend to increase or decrease at a greater rate than would otherwise be the case if money had not been borrowed. As a result, the risk of loss associated with a leveraged company is generally greater than for companies with comparatively less debt. For example, leveraged companies could default on their debt obligations due to a decrease in revenues and cash flow precipitated by an economic downturn or by poor relative performance at such a company.

Table of Contents

When our funds' existing portfolio investments reach the point when debt incurred to finance those investments matures in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If the financing for such purposes were to be unavailable or uneconomic when significant amounts of the debt incurred to finance our funds' existing portfolio investments start to come due, these investments could be materially and adversely affected.

The majority-owned subsidiaries of KFN, the publicly traded specialty finance company managed by us, regularly use and have used significant leverage to finance their assets. An inability by such subsidiaries to continue to raise or utilize leverage, to refinance or extend the maturities of their outstanding indebtedness or to maintain adequate levels of collateral under the terms of their collateralized loan obligations could limit their ability to grow their business, reinvest principal cash, distribute cash to KFN or fully execute their business strategy, and KFN's results of operations may be adversely affected. If KFN is unable to maintain its operating results and access to capital resources, KFN could face substantial liquidity problems and might be required to dispose of material assets or operations to meet its debt service and other obligations.

Among the sectors particularly challenged by downturns in the global credit markets, including the downturn experienced from 2008 through 2010, are the CLO and leveraged finance markets. KFN has significant exposure to these markets through its CLO subsidiaries, each of which is a special purpose company that issued to KFN and other investors notes secured by a pool of collateral consisting primarily of corporate leveraged loans. In most cases, KFN's CLO holdings are deeply subordinated, representing the CLO subsidiary's substantial leverage, which increases both the opportunity for higher returns as well as the magnitude of losses when compared to holders or investors that rank more senior to KFN in right of payment. KFN's CLO subsidiaries have historically experienced an increase in downgrades, depreciations in market value and defaults in respect of leveraged loans in their collateral during downturns in credit markets. There can be no assurance that market conditions giving rise to these types of consequences will not occur, re-occur, subsist or become more acute in the future. Because KFN's CLO structures involve complex collateral and other arrangements, the documentation for such structures is complex, is subject to differing interpretations and involves legal risk. In July 2009, KFN surrendered for cancellation approximately \$298.4 million in aggregate of notes issued to it by certain of its CLOs. The surrendered notes were cancelled and the obligations due under such notes were deemed extinguished.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

***The due diligence process that we undertake in connection with our investments may not reveal all facts that may be relevant in connection with an investment.***

Before making our investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment, to identify possible risks associated with that investment and, in the case of private equity investments, to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence, we typically evaluate a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with an investment. Outside consultants, legal advisors, accountants and investment banks are involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence process may at times

Table of Contents

be subjective with respect to newly organized companies for which only limited information is available. The due diligence conducted for certain of our Public Markets strategies is limited to publicly available information. Accordingly, we cannot be certain that the due diligence investigation that we will carry out with respect to any investment opportunity will reveal or highlight all relevant facts (including fraud or bribery) that may be necessary or helpful in evaluating such investment opportunity, including the existence of contingent liabilities. We also cannot be certain that our due diligence investigations will result in investments being successful or that the actual financial performance of an investment will not fall short of the financial projections we used when evaluating that investment.

***Our investment management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the capital invested.***

Many of our funds hold investments in securities that are not publicly traded. In many cases, our funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our funds to dispose of investments is heavily dependent on the capital markets and in particular the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is made. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing our investment returns to risks of downward movement in market prices during the intended disposition period. Accordingly, under certain conditions, our funds may be forced to either sell securities at lower prices than they had expected to realize or defer sales that they had planned to make, potentially for a considerable period of time. We have made and expect to continue to make significant capital investments in our current and future funds. Contributing capital to these funds is risky, and we may lose some or all of the principal amount of our investments.

***The investments of our funds are subject to a number of inherent risks.***

Our results are highly dependent on our continued ability to generate attractive returns from our investments. Investments made by our private equity, credit or other investments involve a number of significant risks inherent to private equity, credit and other investing, including the following:

companies in which investments are made may have limited financial resources and may be unable to meet their obligations under their securities, which may be accompanied by a deterioration in the value of their equity securities or any collateral or guarantees provided with respect to their debt;

companies in which investments are made are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse impact on their business and prospects;

companies in which investments are made may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;

instances of fraud and other deceptive practices committed by senior management of portfolio companies in which our funds invest may undermine our due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of a fund's investments as well as contribute to overall market volatility that can negatively impact a fund's investment program;

Table of Contents

our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise, resulting in a lower than expected return on the investments and, potentially, on the fund itself;

our portfolio companies generally have capital structures established on the basis of financial projections based primarily on management judgments and assumptions, and general economic conditions and other factors may cause actual performance to fall short of these financial projections, which could cause a substantial decrease in the value of our equity holdings in the portfolio company and cause our funds' performance to fall short of our expectations;

certain of our investment funds may invest in securities of companies that are experiencing significant financial or business difficulties, which are subject to greater legal and regulatory complexities and may be subject to a greater risk of poor performance or loss; and

executive officers, directors and employees of an equity sponsor may be named as defendants in litigation involving a company in which an investment is made or is being made, and we or our funds may indemnify such executive officers, directors or employees for liability relating to such litigation.

***Our investments in real assets such as real estate and natural resources may expose us to increased risks and liabilities and may expose our unitholders to adverse tax consequences.***

Investments in real assets, which may include real estate, oil and gas properties and other natural resources, may expose us to increased risks and liabilities that are inherent in the ownership of real assets. For example, ownership of real assets in our funds or vehicles may increase our risk of liability under environmental laws that impose, regardless of fault, joint and several liability for the cost of remediating contamination and compensation for damages. Ownership of real assets may also present additional risk of liability for personal and property injury or impose significant operating challenges and costs, for example with respect to compliance with zoning, environmental or other applicable laws.

In addition, investments in real assets may cause adverse tax consequences for certain non-U.S. unitholders regarding income effectively connected with the conduct of a U.S. trade or business and the imposition of certain tax withholding. Please see "Risks Related to U.S. Taxation Non-U.S. persons face unique U.S. tax issues from owning our common units that may result in adverse tax consequences to them". Moreover, investments in real assets may also require all our unitholders to file tax returns and pay taxes in various state and local jurisdictions in the U.S. and abroad where our funds and investments own these real assets. Please see "Risks Related to U.S. Taxation Holders of our common units may be subject to state, local and foreign taxes and return filing requirements as a result of owning such common units".

***We often pursue investment opportunities that involve business, regulatory, legal or other complexities.***

As an element of our investment style, we often pursue complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny, the application of complex tax laws or a greater risk of contingent liabilities. We may cause our funds to acquire an investment that is subject to contingent liabilities, which could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent

Table of Contents

that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Any of these risks could harm the performance of our funds.

***Our private equity investments are typically among the largest in the industry, which involves certain complexities and risks that are not encountered in small- and medium-sized investments.***

Our private equity funds make investments in companies with relatively large capitalizations, which involves certain complexities and risks that are not encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance and exiting larger deals may present incremental challenges. In addition, larger transactions may pose greater challenges in implementing changes in the company's management, culture, finances or operations, and may entail greater scrutiny by regulators, interest groups and other third parties. These constituencies may be more active in opposing some larger investments by certain private equity firms.

In some transactions, the amount of equity capital that is required to complete a large capitalization private equity transaction has increased significantly, which has resulted in some of the largest private equity transactions being structured as "consortium transactions." A consortium transaction involves an equity investment in which two or more other private equity firms serve together or collectively as equity sponsors. While we have sought to limit where possible the amount of consortium transactions in which we have been involved, we have participated in a significant number of those transactions. Consortium transactions generally entail a reduced level of control by our firm over the investment because governance rights must be shared with the other consortium investors. Accordingly, we may not be able to control decisions relating to a consortium investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in "Our funds have made investments in companies that we do not control, exposing us to the risk of decisions made by others with which we may not agree." Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment.

***Our funds and accounts have made investments in companies that we do not control, exposing us to the risk of decisions made by others with which we may not agree.***

Our funds and accounts hold investments that include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our funds and accounts through trading activities or through purchases of securities from the issuer. In addition, our funds and accounts may acquire minority equity interests, particularly when sponsoring investments as part of a large investor consortium, and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the funds or accounts retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the value of investments by our funds or accounts could decrease and our financial condition, results of operations and cash flow could be adversely affected. In addition, many of our investments in our Public Markets funds, vehicles and accounts are in companies that we do not control.

***We make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.***

Many of our funds, vehicles and accounts invest or have the flexibility to invest a significant portion of their assets in the equity, debt, loans or other securities of issuers that are based outside of the United States. A substantial amount of these investments consist of private equity investments

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### Table of Contents

made by our private equity funds. For example, as of December 31, 2011, approximately 46% of the unrealized value of the investments of those funds and accounts was attributable to foreign investments. Investing in companies that are based in countries outside of the United States and, in particular, in emerging markets such as China, India, Turkey, countries in south and southeast Asia, Latin America and Africa, involves risks and considerations that are not typically associated with investments in companies established in the United States. These risks may include the following:

the possibility of exchange control regulations, restrictions on repatriation of profit on investments or of capital invested, political and social instability, nationalization or expropriation of assets;

the imposition of non-U.S. taxes;

differences in the legal and regulatory environment, for example the recognition of information barriers, or enhanced legal and regulatory compliance;

greater levels of corruption and potential exposure to the FCPA and other laws that prohibit improper payments or offers of payments to foreign governments, their officials and other third parties;

limitations on borrowings to be used to fund acquisitions or dividends;

limitations on permissible counterparties in our transactions or consolidation rules that effectively restrict the types of businesses in which we may invest;

political risks generally, including political hostility to investments by foreign or private equity investors;

less liquid markets;

reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms;

adverse fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another;

higher rates of inflation;

less available current information about an issuer;

higher transaction costs;

less government supervision of exchanges, brokers and issuers;

less developed bankruptcy and other laws;

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greater application of concepts like equitable subordination, which may, in bankruptcy or insolvency, result in the subordination of debt or other senior interests held by our investment funds, vehicles or accounts in companies in which our investment funds, vehicles or accounts also hold equity interests;

difficulty in enforcing contractual obligations;

lack of uniform accounting, auditing and financial reporting standards;

less stringent requirements relating to fiduciary duties;

fewer investor protections; and

greater price volatility.

As a result of the complexity of and lack of clear precedent or authority with respect to the application of various income tax laws to our structures, the application of rules governing how transactions and structures should be reported is also subject to differing interpretations. In particular,



Table of Contents

certain jurisdictions, including Denmark, France, Germany, and Japan, among others, have either proposed or adopted rules that seek to limit the amount of interest that may be deductible where the lender and the borrower are related parties (or where third party borrowings have been guaranteed by a related party) or may seek to interpret existing rules in a more restrictive manner. In addition, the tax authorities of certain countries, such as Germany, Belgium, France, and Singapore, have sought to disallow tax deductions for transaction and certain other costs at the portfolio company level either on the basis that the entity claiming the deduction does not benefit from the costs incurred or on other grounds. There is also significant risk in Germany that tax losses and interest carry-forwards would lose their value on a change of ownership due to restrictive legislation. These measures will most likely adversely affect portfolio companies in those jurisdictions in which our investment funds and vehicles have investments, and limit the benefits of additional investments in those countries. Our business is also subject to the risk that similar measures might be introduced in other countries in which our investment funds and vehicles currently have investments or plan to invest in the future, or that other legislative or regulatory measures that negatively affect their respective portfolio investments might be promulgated in any of the countries in which they invest.

In addition, certain countries such as Australia, China, India, Japan and South Korea, where we have made investments, have sought to tax investment gains derived by nonresident investors, including private equity funds, from the disposition of the equity in companies operating in those countries. In some cases this development is the result of new legislation or changes in the interpretation of existing legislation and local authority assertions that investors have a local taxable presence or are holding companies for trading purposes rather than for capital purposes, or are not otherwise entitled to treaty benefits. With respect to India, the Bombay High Court recently held in favor of a taxpayer finding that the sale of a foreign company that indirectly held Indian assets was not subject to Indian tax. However, the Indian legislature has proposed new legislation that if enacted, would permit Indian tax authorities to assess tax on capital gains arising on the direct or indirect sale of Indian assets and may introduce capital gains tax provisions in an upcoming bill, which would render the recent court decision less relevant.

Further, certain countries, such as Australia, Belgium, China, Denmark, Germany, and South Korea have sought to deny the benefits of income tax treaties or EU Directives with respect to withholding taxes on interest and dividends of nonresident entities, on the basis that the entity benefiting from such treaty or Directive is not the owner of the income, is a mere conduit inserted primarily to access treaty benefits or Directives, or otherwise lacks substance.

As a result of the complexity of our structures, foreign jurisdictions may seek to tax a material portion of the fee income associated with our management advisory activity. Due to the complexity, sophistication, and global nature of our investment decision making function, foreign jurisdictions may assert that a material amount of fee income was associated with a taxable presence in their jurisdiction and assert that such income is subject to local tax, potentially reducing our profits associated with such income, although this risk may be mitigated by the availability of foreign tax credits.

Although we expect that most of our funds', vehicles' and accounts' capital commitments will be denominated in U.S. dollars, our investments and capital commitments that are denominated in a foreign currency, such as euro, will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the ability of countries to pay their national debt, levels of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that such strategies will be effective or even available at all. If we engage in hedging transactions, we may be exposed to additional risks associated with such transactions. See " Risk management activities may adversely affect the return on our investments."

Table of Contents

***Third party investors in our funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.***

Investors in certain of our funds make capital commitments to those funds that the funds are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for such funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may in the future also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

***Our equity investments and many of our debt investments often rank junior to investments made by others, exposing us to greater risk of losing our investment.***

In many cases, the companies in which our funds invest have, or are permitted to have, outstanding indebtedness or equity securities that rank senior to our fund's investment. By their terms, such instruments may provide that their holders are entitled to receive payments of distributions, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of its investment. In addition, debt investments made by our investment funds, vehicles or accounts in our portfolio companies may be equitably subordinated to the debt investments made by third parties in our portfolio companies. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

***Risk management activities may adversely affect the return on our investments.***

When managing exposure to market risks, we employ hedging strategies or certain forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates and currency exchange rates. The scope of risk management activities undertaken by us varies based on the level and volatility of interest rates, prevailing foreign currency exchange rates, the types of investments that are made and other changing market conditions. The use of hedging transactions and other derivative instruments to reduce the effects of a decline in the value of a position does not eliminate the possibility of fluctuations in the value of the position or prevent losses if the value of the position declines. However, such activities can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of the position. Such transactions may also limit the opportunity for gain if the value of a position increases. Moreover, it may not be possible to limit the exposure to a market development that is so generally anticipated that a hedging or other derivative transaction cannot be entered into at an acceptable price.

Table of Contents

The success of any hedging or other derivative transactions that we enter into generally will depend on our ability to correctly predict market changes. As a result, while we may enter into such transactions in order to reduce our exposure to market risks, unanticipated market changes may result in poorer overall investment performance than if the hedging or other derivative transaction had not been executed. In addition, the degree of correlation between price movements of the instruments used in connection with hedging activities and price movements in a position being hedged may vary. Moreover, for a variety of reasons, we may not seek or be successful in establishing a perfect correlation between the instruments used in hedging or other derivative transactions and the positions being hedged. An imperfect correlation could prevent us from achieving the intended result and could give rise to a loss. In addition, it may not be possible to fully or perfectly limit our exposure against all changes in the value of its investments, because the value of investments is likely to fluctuate as a result of a number of factors, some of which will be beyond our control or ability to hedge.

The CFTC has recently proposed or adopted regulations governing swaps and security-based swaps, which may limit our trading activities and our ability to implement effective hedging strategies. See "Risks Related to Our Business Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could result in additional burdens on our business."

***Certain of our funds may make a limited number of investments, or investments that are concentrated in certain geographic regions or asset types, which could negatively affect their performance to the extent those concentrated investments perform poorly.***

The governing agreements of our funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. Our private equity funds generally permit up to 20% of the fund to be invested in a single company. During periods of difficult market conditions or slowdowns in these sectors or geographic regions, decreased revenues, difficulty in obtaining access to financing and increased funding costs may be exacerbated by this concentration of investments, which would result in lower investment returns. Because a significant portion of a fund's capital may be invested in a single investment or portfolio company, a loss with respect to such investment or portfolio company could have a significant adverse impact on such fund's capital. Accordingly, a lack of diversification on the part of a fund could adversely affect a fund's performance and therefore, our financial condition and results of operations.

***Because we hold interests in some of our portfolio companies both through our management of private equity funds as well as through separate investments in those funds and direct co-investments, fluctuation in the fair values of these portfolio companies may have a disproportionate impact on the investment income earned by us.***

We hold interests in some of our portfolio companies through our management of private equity funds in our Private Markets segment, as well as through separate investments in those funds and co-investments in certain portfolio companies of such funds, principally consisting of the assets we acquired from KPE in the Combination Transaction, in our Capital Markets and Principal Activities segment. As of December 31, 2011, we hold significant aggregate investments in each of Dollar General Corporation, HCA Inc., Alliance Boots GmbH, The Nielsen Company B.V., and Samson Resources Corporation, which each represent more than 5% of our Capital Markets and Principal Activities segment investment balance. As a result of our disproportionate investment in these companies, or any other portfolio companies for which similar investments are held in the future, any fluctuation in the fair values of these portfolio companies may have a disproportionate impact on the investment income earned by us as compared to other portfolio companies.

Table of Contents

***Our funds may make investments and we may engage in other business activities, which could give rise to a conflict of interest.***

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to investment activities among our various funds and also our own account. For example,

In pursuing the interest of our fund investors, we may take actions that could reduce our AUM or our profits that we could otherwise realize in the short term.

We may be required to allocate investment opportunities among investment vehicles that may have overlapping investment objectives, including vehicles that may have different fee structures, and among KKR co-investment vehicles (including vehicles in which KKR employees may invest) and third party co-investors.

We may, on behalf of our funds or KKR itself, buy, sell, hold or otherwise deal with securities or other investments that may be purchased, sold or held by our other funds or that are otherwise issued by a portfolio company in which our funds invest. Conflicts of interest may arise between a fund, on one hand, and KKR on the other or among our funds including but not limited to those relating to the purchase or sale of investments, the structuring of, or exercise of rights with respect to investment transactions and the advice we provide to our funds.

We may invest on behalf of our fund or for our own account in a portfolio company of one fund that is a competitor, service provider, supplier, customer, or other counterparty with respect to a portfolio company of another fund.

A decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund or our own account may result in our having to restrict the ability of other funds to take any action.

Conflicts may arise in allocating time, services or resources among the investment activities of our funds, KKR, other KKR-affiliated entities and the employees of KKR.

The general partner's entitlement to receive carried interest from many of our funds may create an incentive for that general partner to make riskier and more speculative investments on behalf of fund than would be the case in the absence of such an arrangement. In addition, for our funds that pay carried interest based on accrued rather than realized gains, the amount of carried interest to which the general partner is entitled and the timing of its receipt of carried interest will depend on the valuation by the general partner of the fund's investment.

From time to time, one of our funds may seek to effect a purchase or sale of an investment with one or more of our other funds in a so-called "cross transaction".

The investors in our investment vehicles are based in a wide variety of jurisdictions and take a wide variety of forms, and consequently have diverging interests among themselves from a regulatory, tax or legal perspective or with respect to investment policies and target risk/return profiles.

We or our affiliates, including our capital markets business, may receive fees or other compensation in connection with specific transactions or different clients that may give rise to conflicts. The decision to take on an opportunity in one of our businesses may, as a practical matter, also limit the ability of one or our other businesses to take advantage of other related opportunities.

In addition, our funds and accounts also invest in a broad range of asset classes throughout the corporate capital structure. These investments include investments in corporate loans and debt securities, preferred equity securities and common equity securities. In certain

cases, we may manage

Table of Contents

separate funds or accounts that invest in different parts of the same company's capital structure. For example, our fixed income funds may invest in different classes of the same company's debt and may make debt investments in a company that is owned by one of our private equity funds. In those cases, the interests of our funds and accounts may not always be aligned, which could create actual or potential conflicts of interest or the appearance of such conflicts. For example, one of our private equity funds could have an interest in pursuing an acquisition, divestiture or other transaction that, in its judgment, could enhance the value of the private equity investment, even though the proposed transaction would subject one of our fixed income fund's debt investments to additional or increased risks. Finally, our ability to effectively implement a public securities strategy may be limited to the extent that contractual obligations entered into in the ordinary course of our private equity business impose restrictions on our engaging in transactions that we may be interested in otherwise pursuing.

We may also cause different investment funds to invest in a single portfolio company, for example where the fund that made an initial investment no longer has capital available to invest. Conflicts may also arise where we make principal investments for our own account or permit employees to invest alongside our investment vehicles or our balance sheet for their own account. In certain cases, we may require that a transaction or investment be approved by an independent valuation expert, be subject to a fairness opinion, be based on arms-length pricing data or be calculated in accordance with a formula provided for in a fund's governing documents prior to the completion of the relevant transaction to address potential conflicts of interest. Such instances include principal transactions where we or our affiliates warehouse an investment in a portfolio company for the benefit of one or more of our funds or accounts pending the contribution of committed capital by the investors in such funds or accounts, follow-on investments by a fund other than a fund which made an initial investment in a company or transactions in which we arrange for one of our funds or accounts to buy a security from, or sell a security to, another one of our funds or accounts.

Appropriately dealing with conflicts of interest is complex and difficult and we could suffer reputational damage or potential liability if we fail, or appear to fail, to deal appropriately with conflicts as they arise. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation which could in turn materially adversely affect our business in a number of ways, including as a result of an inability to raise additional funds and a reluctance of counterparties to do business with us.

***If KFN were deemed to be an "investment company" subject to regulation under the Investment Company Act, applicable restrictions could have an adverse effect on our business.***

Our business would be adversely affected if KFN, the publicly traded specialty finance company managed by us, was to be deemed to be an investment company under the Investment Company Act. A person will generally be deemed to be an "investment company" for purposes of the Investment Company Act if, absent an available exception or exemption, it (i) is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or (ii) owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We believe KFN is not and does not propose to be primarily engaged in the business of investing, reinvesting or trading in securities, and we do not believe that KFN has held itself out as such. KFN conducts its operations primarily through its majority-owned subsidiaries, each of which is either outside of the definition of an investment company as defined in the Investment Company Act or excepted from such definition under the Investment Company Act. KFN monitors its holdings regularly to confirm its continued compliance with the 40% test described in clause (ii) above, and restricts its subsidiaries with respect to the assets in which each of them can invest and/or the types of securities each of them may issue in order to ensure conformity with exceptions provided by, and rules and regulations promulgated under, the Investment Company Act. If the SEC were to disagree

Table of Contents

with KFN's treatment of one or more of its subsidiaries as being excepted from the Investment Company Act, with its determination that one or more of its other holdings are not investment securities for purposes of the 40% test, or with its determinations as to the nature of its business or the manner in which it holds itself out, KFN and/or one or more of its subsidiaries could be required either (i) to change substantially the manner in which it conducts its operations to avoid being subject to the Investment Company Act or (ii) to register as an investment company. Either of these would likely have a material adverse effect on KFN, its ability to service its indebtedness and to make distributions on its shares, and on the market price of its shares and securities, and could thereby materially adversely affect our business, financial condition and results of operations.

On August 31, 2011 the SEC published an advance notice of proposed rulemaking regarding Rule 3a-7 and a concept release seeking information on Section 3(c)(5)(C), two provisions with which KFN's subsidiaries must comply under the 40% test described above. Among the issues for which the SEC has requested comment is whether Rule 3a-7 should be modified so that parent companies of subsidiaries that rely on Rule 3a-7 should treat their interests in such subsidiaries as investment securities for purposes of the 40% test. The SEC is also seeking information about the nature of entities that invest in mortgages and mortgage-related pools and how the SEC staff's interpretive positions in connection with Section 3(c)(5)(C) affect these entities. Any guidance or action from the SEC or its staff, including changes that the SEC may ultimately propose and adopt to the way Rule 3a-7 applies to entities or new or modified interpretive positions related to Section 3(c)(5)(C), could further inhibit KFN's ability, or the ability of any of its subsidiaries, to pursue its current or future operating strategies, which could have a material adverse effect on KFN and on us.

***Investments by our long/short equity strategy and any other hedge funds and similar investment vehicles are subject to numerous additional risks.***

Investments by one or more hedge funds and investment vehicles with similar characteristics that we currently advise or may organize in the future are subject to numerous additional risks, including the following:

Our long/short equity strategy is newly established without any operating history, and we do not have any significant track record as a hedge fund manager.

Generally, there are few limitations on the execution of a hedge funds' investment strategies, which are subject to the sole discretion of the management company or the general partner of such funds.

Hedge funds may engage in short selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.

Hedge funds and investment vehicles with similar characteristics are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. Generally, hedge funds and investment vehicles with similar characteristics are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the fund's internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.

Table of Contents

Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This systemic risk may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms and exchanges) with which the hedge funds and investment vehicles with similar characteristics interact on a daily basis.

The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A hedge fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position.

Hedge funds are subject to risks due to potential illiquidity of assets. Hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or costly for hedge funds to liquidate positions rapidly in order to meet margin calls, redemption requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. In addition in a declining market or in the event fund investors otherwise demand greater liquidity, the pace of redemptions could accelerate requiring us to sell assets on unfavorable terms.

**Risks Related to Our Common Units**

*The requirements of being a public entity and sustaining growth may strain our resources.*

Our common units commenced trading on the NYSE on July 15, 2010 and we are subject to the reporting requirements of the Exchange Act, and requirements of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. These requirements place a certain level of strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures, significant resources and management oversight will be required. In addition, sustaining our growth may also continue to require us to commit additional management, operational and financial resources to identify new professionals to join the firm and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. We have incurred and will continue to incur additional costs for expenses for compliance with the Sarbanes-Oxley Act and rules of the SEC and the NYSE, hiring additional accounting, legal and administrative personnel, and various other costs related to being a public company.



Table of Contents

***As a limited partnership, we qualify for some exemptions from the corporate governance and other requirements of the NYSE.***

We are a limited partnership and, as a result, qualify for exceptions from certain corporate governance and other requirements of the rules of the NYSE. Pursuant to these exceptions, limited partnerships may elect, and we have elected, not to comply with certain corporate governance requirements of the NYSE, including the requirements: (i) that the listed company have a nominating and corporate governance committee that is composed entirely of independent directors; and (ii) that the listed company have a compensation committee that is composed entirely of independent directors. In addition, as a limited partnership, we are not required to hold annual unitholder meetings. Accordingly, you do not have the same protections afforded to equity holders of entities that are subject to all of the corporate governance requirements of the NYSE.

***Our founders are able to determine the outcome of any matter that may be submitted for a vote of our limited partners.***

As of February 23, 2012, KKR Holdings owns 451,666,211 KKR Group Partnership Units, and our principals generally have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of the holders of our common units, including a merger or consolidation of our business, a sale of all or substantially all of our assets and amendments to our partnership agreement that may be material to holders of our common units. In addition, our limited partnership agreement contains provisions that enable us to take actions that would materially and adversely affect all holders of our common units or a particular class of holders of common units upon the majority vote of all outstanding voting units, and since more than a majority of our voting units are controlled by KKR Holdings, KKR Holdings has the ability to take actions that could materially and adversely affect the holders of our common units either as a whole or as a particular class.

The voting rights of holders of our common units are further restricted by provisions in our limited partnership agreement stating that any of our common units held by a person that beneficially owns 20% or more of any class of our common units then outstanding (other than our Managing Partner or its affiliates, or a direct or subsequently approved transferee of our Managing Partner or its affiliates) cannot be voted on any matter. Our limited partnership agreement also contains provisions limiting the ability of the holders of our common units to call meetings, to acquire information about our operations, and to influence the manner or direction of our management. Our limited partnership agreement does not restrict our Managing Partner's ability to take actions that may result in our partnership being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. Furthermore, holders of our common units would not be entitled to dissenters' rights of appraisal under our limited partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event.

***Our limited partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our Managing Partner and limit remedies available to unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for unitholders to successfully challenge a resolution of a conflict of interest by our Managing Partner or by its conflicts committee.***

Our limited partnership agreement contains provisions that require holders of our common units to waive or consent to conduct by our Managing Partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our limited partnership agreement provides that when our Managing Partner is acting in its individual capacity, as opposed to in its capacity as our Managing Partner, it may act without any fiduciary obligations to holders of our common units, whatsoever. When our Managing Partner, in its capacity as our general partner, or our conflicts committee is permitted to or required to make a decision in its "sole discretion" or "discretion" or that it deems "necessary or appropriate" or "necessary or advisable," then our

Table of Contents

Managing Partner or the conflicts committee will be entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any holder of our common units and will not be subject to any different standards imposed by our limited partnership agreement, the Delaware Revised Uniform Limited Partnership Act, which is referred to as the Delaware Limited Partnership Act, or under any other law, rule or regulation or in equity. These standards reduce the obligations to which our Managing Partner would otherwise be held. See also " We are a Delaware limited partnership, and there are provisions in our limited partnership agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law (DGCL) in a manner that may be less protective of the interests of our common unitholders."

The above modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and holders of our common units will only have recourse and be able to seek remedies against our Managing Partner if our Managing Partner breaches its obligations pursuant to our limited partnership agreement. Unless our Managing Partner breaches its obligations pursuant to our limited partnership agreement, we and holders of our common units will not have any recourse against our Managing Partner even if our Managing Partner were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our limited partnership agreement, our limited partnership agreement provides that our Managing Partner and its officers and directors will not be liable to us or holders of our common units, for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that our Managing Partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These provisions are detrimental to the holders of our common units because they restrict the remedies available to unitholders for actions that without such limitations might constitute breaches of duty including fiduciary duties.

Whenever a potential conflict of interest exists between us and our Managing Partner, our Managing Partner may resolve such conflict of interest. If our Managing Partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our Managing Partner, then it will be presumed that in making this determination, our Managing Partner acted in good faith. A holder of our common units seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our Managing Partner obtains the approval of the conflicts committee of our Managing Partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our Managing Partner of any duties it may owe to us or holders of our common units. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. If you purchase, receive or otherwise hold a common unit, you will be treated as having consented to the provisions set forth in our limited partnership agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee.

We have also agreed to indemnify our Managing Partner and any of its affiliates and any member, partner, tax matters partner, officer, director, employee agent, fiduciary or trustee of our partnership, our Managing Partner or any of our affiliates and certain other specified persons, to the fullest extent

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### Table of Contents

permitted by law, against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts incurred by our Managing Partner or these other persons. We have agreed to provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud or willful misconduct. We have also agreed to provide this indemnification for criminal proceedings.

Any claims, suits, actions or proceedings concerning the matters described above or any other matter arising out of or relating in any way to the limited partnership agreement may only be brought in the Court of Chancery of the State of Delaware or, if such court does not have subject matter jurisdiction thereof, any other court in the State of Delaware with subject matter jurisdiction.

***The market price and trading volume of our common units may be volatile, which could result in rapid and substantial losses for our common unitholders.***

The market price of our common units may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common units may fluctuate and cause significant price variations to occur. If the market price of our common units declines significantly, you may be unable to sell your common units at an attractive price, if at all. The market price of our common units may fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our common units or result in fluctuations in the price or trading volume of our common units include:

variations in our quarterly operating results or distributions, which may be substantial;

our policy of taking a long-term perspective on making investment, operational and strategic decisions, which is expected to result in significant and unpredictable variations in our quarterly returns;

failure to meet analysts' earnings estimates;

publication of research reports about us or the investment management industry or the failure of securities analysts to cover our common units sufficiently;

additions or departures of our principals and other key management personnel;

adverse market reaction to any indebtedness we may incur or securities we may issue in the future;

changes in market valuations of similar companies;

speculation in the press or investment community;

changes or proposed changes in laws or regulations or differing interpretations thereof affecting our business or enforcement of these laws and regulations, or announcements relating to these matters;

a lack of liquidity in the trading of our common units;

adverse publicity about the investment management or private equity industry generally or individual scandals, specifically;  
and

general market and economic conditions.

Table of Contents

*An investment in our common units is not an investment in any of our funds, and the assets and revenues of our funds are not directly available to us.*

Our common units are securities of KKR & Co. L.P. only. While our historical consolidated and combined financial information includes financial information, including assets and revenues, of certain funds on a consolidated basis, and our future financial information will continue to consolidate certain of these funds, such assets and revenues are available to the fund and not to us except to a limited extent through management fees, carried interest or other incentive income, distributions and other proceeds arising from agreements with funds, as discussed in more detail in this report.

*Our common unit price may decline due to the large number of common units eligible for future sale, for exchange, and issuable pursuant to our equity incentive plan.*

The market price of our common units could decline as a result of sales of a large number of common units in the market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a price that we deem appropriate. As of February 23, 2012, we have 231,698,206 common units outstanding, which amount excludes common units beneficially owned by KKR Holdings in the form of KKR Group Partnership Units discussed below and common units available for future issuance under the KKR & Co. L.P. 2010 Equity Incentive Plan, which we refer to as our Equity Incentive Plan.

As of February 23, 2012, KKR Holdings owns 451,666,211 KKR Group Partnership Units that may be exchanged, on a quarterly basis, for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. Except for interests held by our founders and certain interests held by other principals that were vested upon grant, interests in KKR Holdings that are held by our principals are subject to time based vesting or performance based vesting and, following such vesting, additional restrictions in certain cases on exchanges for a period of one or two years. During 2011, 35,806,722 previously unvested units in KKR Holdings vested. The market price of our common units could decline as a result of the exchange or the perception that an exchange may occur of a large number of KKR Group Partnership Units for our common units. These exchanges, or the possibility that these exchanges may occur, also might make it more difficult for holders of our common units to sell our common units in the future at a time and at a price that they deem appropriate.

In addition, we will continue to issue additional common units pursuant to our Equity Incentive Plan. The total number of common units which may be issued under our Equity Incentive Plan is equivalent to 15% of the number of fully diluted common units outstanding as of the beginning of the year. The amount may be increased each year to the extent that we issue additional equity. In addition, our limited partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our Managing Partner in its sole discretion without the approval of our unitholders, including awards representing our common units under the Equity Incentive Plan. See "Executive Compensation". In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partner interests that have designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to our common units.

Table of Contents

**Risks Related to Our Organizational Structure**

*Potential conflicts of interest may arise among our Managing Partner, our affiliates and us. Our Managing Partner and our affiliates have limited fiduciary duties to us and the holders of KKR Group Partnership Units, which may permit them to favor their own interests to our detriment and that of the holders of KKR Group Partnership Units.*

Our Managing Partner, which is our general partner, will manage the business and affairs of our business, and will be governed by a board of directors that is co-chaired by our founders, who also serve as our Co-Chief Executive Officers. Conflicts of interest may arise among our Managing Partner and its affiliates, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our Managing Partner may favor its own interests and the interests of its affiliates over us and our unitholders. These conflicts include, among others, the following:

Our Managing Partner indirectly through its holding of controlling entities determines the amount and timing of the KKR Group Partnership's investments and dispositions, indebtedness, issuances of additional partner interests, tax liabilities and amounts of reserves, each of which can affect the amount of cash that is available for distribution to holders of KKR Group Partnership Units;

Our Managing Partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties, including fiduciary duties, to us. For example, our affiliates that serve as the general partners of our funds have fiduciary and contractual obligations to our fund investors, and such obligations may cause such affiliates to regularly take actions that might adversely affect our near-term results of operations or cash flow. Our Managing Partner will have no obligation to intervene in, or to notify us of, such actions by such affiliates;

Because our principals indirectly hold their KKR Group Partnership Units through entities that are not subject to corporate income taxation and we hold some of the KKR Group Partnership Units through one or more wholly-owned subsidiaries that are taxable as a corporation, conflicts may arise between our principals and us relating to the selection and structuring of investments, declaring distributions and other matters;

Our Managing Partner, including its directors and officers, has limited its and their liability and reduced or eliminated its and their duties, including fiduciary duties, under our partnership agreement to the fullest extent permitted by law, while also restricting the remedies available to holders of common units for actions that, without these limitations, might constitute breaches of duty, including fiduciary duties. In addition, we have agreed to indemnify our Managing Partner, including its directors and officers, and our Managing Partner's affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct;

Our partnership agreement does not restrict our Managing Partner from paying us or our affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under our partnership agreement. The conflicts committee will be responsible for, among other things, enforcing our rights and those of our unitholders under certain 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;

Our Managing Partner determines how much debt we incur and that decision may adversely affect any credit ratings we receive;

Table of Contents

Our Managing Partner determines which costs incurred by it and its affiliates are reimbursable by us;

Other than as set forth in the confidentiality and restrictive covenant agreements, which in certain cases may only be agreements between our principals and KKR Holdings and which may not be enforceable by us or otherwise waived, modified or amended, affiliates of our Managing Partner and existing and former personnel employed by our Managing Partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us;

Our Managing Partner controls the enforcement of obligations owed to the KKR Group Partnerships by us and our affiliates; and

Our Managing Partner or our Managing Partner conflicts committee decides whether to retain separate counsel, accountants or others to perform services for us.

See "Certain Relationships and Related Transactions, and Director Independence."

***Certain actions by our Managing Partner's board of directors require the approval of the Class A shares of our Managing Partner, all of which are held by our senior principals.***

All of our Managing Partner's outstanding Class A shares are held by our senior principals. Although the affirmative vote of a majority of the directors of our Managing Partner is required for any action to be taken by our Managing Partner's board of directors, certain specified actions approved by our Managing Partner's board of directors will also require the approval of a majority of the Class A shares of our Managing Partner. These actions consist of the following:

the entry into a debt financing arrangement by us in an amount in excess of 10% of our existing long-term indebtedness (other than the entry into certain intercompany debt financing arrangements);

the issuance by our partnership or our subsidiaries of any securities that would (i) represent, after such issuance, or upon conversion, exchange or exercise, as the case may be, at least 5% on a fully diluted, as converted, exchanged or exercised basis, of any class of our or their equity securities or (ii) have designations, preferences, rights, priorities or powers that are more favorable than those of KKR Group Partnership Units;

the adoption by us of a shareholder rights plan;

the amendment of our limited partnership agreement or the limited partnership agreements of the KKR Group Partnerships;

the exchange or disposition of all or substantially all of our assets or the assets of any KKR Group Partnership;

the merger, sale or other combination of the partnership or any KKR Group Partnership with or into any other person;

the transfer, mortgage, pledge, hypothecation or grant of a security interest in all or substantially all of the assets of the KKR Group Partnerships;

the appointment or removal of a Chief Executive Officer or a Co-Chief Executive Officer of our Managing Partner or our partnership;

the termination of the employment of any of our officers or the officers of any of our subsidiaries or the termination of the association of a partner with any of our subsidiaries, in each case, without cause;



Table of Contents

the liquidation or dissolution of the partnership, our Managing Partner or any KKR Group Partnership; and

the withdrawal, removal or substitution of our Managing Partner as our general partner or any person as the general partner of a KKR Group Partnership, or the transfer of beneficial ownership of all or any part of a general partner interest in our partnership or a KKR Group Partnership to any person other than one of its wholly owned subsidiaries.

In addition, holders representing a majority of the Class A shares of our Managing Partner have the authority to unilaterally appoint our Managing Partner's directors and also have the ability to appoint the officers of our Managing Partner. Messrs. Kravis and Roberts collectively hold Class A shares representing a majority of the total voting power of the outstanding Class A shares. While neither of them acting alone will be able to control the voting of the Class A shares, they will be able to control the voting of such shares if they act together.

***Our common unitholders do not elect our Managing Partner or vote on our Managing Partner's directors and have limited ability to influence decisions regarding our business.***

Our common unitholders do not elect our Managing Partner or its board of directors and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our business and therefore limited ability to influence decisions regarding our business. Furthermore, if our common unitholders are dissatisfied with the performance of our Managing Partner, they have no ability to remove our Managing Partner, with or without cause.

***The control of our Managing Partner may be transferred to a third party without our consent.***

Our Managing Partner may transfer its general partner interest to a third party in a merger or consolidation or in a transfer of all or substantially all of its assets without our consent or the consent of our common unitholders. Furthermore, the members of our Managing Partner may sell or transfer all or part of their limited liability company interests in our Managing Partner without our approval, subject to certain restrictions. A new general partner may not be willing or able to form new funds and could form funds that have investment objectives and governing terms that differ materially from those of our current funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as our track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

***We intend to pay periodic distributions to the holders of our common units, but our ability to do so may be limited by our holding company structure and contractual restrictions.***

We intend to pay cash distributions on a quarterly basis. We are a holding company and have no material assets other than the KKR Group Partnership Units that we hold through wholly-owned subsidiaries and have no independent means of generating income. Accordingly, we intend to cause the KKR Group Partnerships to make distributions on the KKR Group Partnership Units, including KKR Group Partnership Units that we directly or indirectly hold, in order to provide us with sufficient amounts to fund distributions we may declare. If the KKR Group Partnerships make such distributions, other holders of KKR Group Partnership Units, including KKR Holdings, will be entitled to receive equivalent distributions pro rata based on their KKR Group Partnership Units.

The declaration and payment of any future distributions will be at the sole discretion of our Managing Partner, which may change our distribution policy at any time. Our Managing Partner will take into account general economic and business conditions, our strategic plans and prospects, our

Table of Contents

business and investment opportunities, our financial condition and operating results, compensation expense, working capital requirements and anticipated cash needs, debt and contractual restrictions and obligations (including payment obligations pursuant to the tax receivable agreement), legal, tax and regulatory restrictions, restrictions or other implications on the payment of distributions by us to the holders of KKR Group Partnership Units or by our subsidiaries to us and such other factors as our Managing Partner may deem relevant. Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. Furthermore, by paying cash distributions rather than investing that cash in our businesses, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise.

Our ability to characterize such distributions as capital gains or qualified dividend income may be limited, and you should expect that some or all of such distributions may be regarded as ordinary income.

***We will be required to pay our principals for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we receive in connection with subsequent exchanges of our common units and related transactions.***

We and one or more of our intermediate holding companies are required to acquire KKR Group Partnership Units from time to time pursuant to our exchange agreement with KKR Holdings. To the extent this occurs, the exchanges are expected to result in an increase in one of our 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 our business, that would not otherwise have been available. This increase in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of income tax our intermediate holding companies would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

We are party to a tax receivable agreement with KKR Holdings requiring our intermediate holding company to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding companies actually realize as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding companies actually realize as a result of increases in tax basis that arise due to future payments under the agreement. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. This payment obligation will be an obligation of our intermediate holding companies and not of either KKR Group Partnership. In the event that any of our current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, we expect that each such entity will become subject to a tax receivable agreement with substantially similar terms. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our taxable income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of the KKR Group Partnerships, the payments that we

Table of Contents

may be required to make to our existing owners will be substantial. The payments under the tax receivable agreement are not conditioned upon our existing owners' continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreement as a result of timing discrepancies or otherwise. In particular, our intermediate holding companies' obligations under the tax receivable agreement would be effectively accelerated in the event of an early termination of the tax receivable agreement by our intermediate holding companies or in the event of certain mergers, asset sales and other forms of business combinations or other changes of control. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity.

Payments under the tax receivable agreement will be based upon the tax reporting positions that our Managing Partner will determine. We are not aware of any issue that would cause the IRS to challenge a tax basis increase. However, neither KKR Holdings nor its transferees will reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase, or the tax benefits we claim arising from such increase, is successfully challenged by the IRS. As a result, in certain circumstances, payments to KKR Holdings or its transferees under the tax receivable agreement could be in excess of the intermediate holding companies' cash tax savings. The intermediate holding companies' ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

***If we were deemed to be an "investment company" subject to regulation under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.***

A person will generally be deemed to be an "investment company" for purposes of the Investment Company Act if:

it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or

absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of our total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis.

We believe that we are engaged primarily in the business of providing investment management services and not in the business of investing, reinvesting or trading in securities. We regard ourselves as an investment management firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that we are an "orthodox" investment company as defined in Section 3(a)(1)(A) of the Investment Company Act and described in the first bullet point above.

With regard to the provision described in the second bullet point above, we have no material assets other than our equity interests in subsidiaries, which in turn have no material assets other than equity interests, directly or indirectly, in the KKR Group Partnerships. Through these interests, we indirectly are the sole general partners of the KKR Group Partnerships and indirectly are vested with all management and control over the KKR Group Partnerships. We do not believe our equity interests in our subsidiaries are investment securities, and we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities. Accordingly, based on our determination, less than 40% of the partnership's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis are comprised of assets that could be considered investment securities. In this regard, as a result of the Combination Transaction, we succeeded to a significant number of investment securities previously held by KPE and now held by

Table of Contents

our KKR Group Partnerships. In addition, we expect to make investments in other investment securities from time to time. We monitor these holdings regularly to confirm our continued compliance with the 40% test described in the second bullet point above. The need to comply with this 40% test may cause us to restrict our business and subsidiaries with respect to the assets in which we can invest and/or the types of securities we may issue, sell investment securities, including on unfavorable terms, acquire assets or businesses that could change the nature of our business or potentially take other actions which may be viewed as adverse by the holders of our common units, in order to ensure conformity with exceptions provided by, and rules and regulations promulgated under, the Investment Company Act.

The Investment Company Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the Investment Company Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that we will not be deemed to be an investment company under the Investment Company Act. If anything were to happen which would cause the partnership to be deemed to be an investment company under the Investment Company Act, requirements imposed by the Investment Company Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, would make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among the partnership, the KKR Group Partnerships and KKR Holdings, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal, potentially divest assets acquired in the Combination Transaction or otherwise conduct our business in a manner that does not subject it to the registration and other requirements of the Investment Company Act.

***We are a Delaware limited partnership, and there are certain provisions in our limited partnership agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law (DGCL) in a manner that may be less protective of the interests of our common unitholders.***

Our limited partnership agreement provides that to the fullest extent permitted by applicable law our directors or officers will not be liable to us. However, under the DGCL, a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders, (ii) intentional misconduct or knowing violations of the law that are not done in good faith, (iii) improper redemption of shares or declaration of dividend, or (iv) a transaction from which the director derived an improper personal benefit. In addition, our limited partnership agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent provided by law. However, under the DGCL, a corporation can only indemnify directors and officers for acts or omissions if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful. Accordingly, our limited partnership agreement may be less protective of the interests of our common unitholders, when compared to the DGCL, insofar as it relates to the exculpation and indemnification of our officers and directors. See also " Our limited partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our limited partner and limit remedies available for unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for unitholders to successfully challenge a resolution of a conflict of interest by our Managing Partner or by its conflicts committee."

Table of Contents

**Risks Related to U.S. Taxation**

***If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to you would be substantially reduced and the value of our common units could be adversely affected.***

The value of your investment in us depends in part on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code, and that our partnership not be registered under the Investment Company Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We intend to structure our investments so as to satisfy these requirements, including by generally holding investments that generate non-qualifying income through one or more subsidiaries that are treated as corporations for U.S. federal income tax purposes. Nonetheless, we may not meet these requirements, may not correctly identify investments that should be owned through corporate subsidiaries, or current law may change so as to cause, in any of these events, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject us to U.S. federal income tax. We have not requested, and do not plan to request, a ruling from the IRS, on this or any other matter affecting us.

If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal, state and local income tax on our taxable income at the applicable tax rates. Distributions to you would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would otherwise flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to you would be substantially reduced which could cause a reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for U.S. federal or state income tax purposes or otherwise subjecting us to entity level taxation. See "Risks Related to Our Business" The U.S. Congress has considered legislation that would have (i) in some cases after a ten-year period, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (ii) taxed certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, the after tax income and gain related to our business, as well as the market price of our units, could be reduced." Because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to you would be reduced.

***You will be subject to U.S. federal income tax on your share of our taxable income, regardless of whether you receive any cash distributions, and may recognize income in excess of cash distributions.***

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Internal Revenue Code and we are not required to register as an investment company under the Investment Company Act on a continuing basis, and assuming there is no change in law, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. As a result, a U.S. unitholder will be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on its allocable share of our items of income, gain, loss, deduction and credit (including its allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within the unitholder's taxable year, regardless of whether or when such unitholder receives cash distributions. See "Risks Related to Our Business" The U.S. Congress has considered legislation that would have (i) in some cases after a ten-year period, precluded us from qualifying as a partnership or required us to hold carried interest through taxable subsidiary corporations and (ii) taxed certain income and gains at increased rates. If any similar legislation were to be enacted and apply to us, the after tax income and gain related to our business, as well as the market price of our units, could be reduced."

Table of Contents

You may not receive cash distributions equal to your allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a controlled foreign corporation, or a CFC, a passive foreign investment company, or a PFIC, or entities treated as partnerships for U.S. federal income tax purposes, may produce taxable income prior to the receipt of cash relating to such income, and holders of our common units that are U.S. taxpayers may be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of the partnership status for which the IRS has granted limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require the holders of our common units to recognize additional amounts in income during the years in which they hold such units. In addition, because of our methods of allocating income and gain among holders of our common units, you may be taxed on amounts that accrued economically before you became a unitholder. For example, phantom income from the portfolio or due to operational activities may arise during a month and be allocated to you, creating taxable liability that KKR would not consider in a quarterly distribution because KKR typically considers tax distributions on an annual basis. Consequently, you may recognize taxable income without receiving any cash.

Although we expect that distributions we make should be sufficient to cover a holder's tax liability in any given year that is attributable to its investment in us, no assurances can be made that this will be the case. We will be under no obligation to make any such distribution and, in certain circumstances, may not be able to make any distributions or will only be able to make distributions in amounts less than a holder's tax liability attributable to its investment in us. In addition, we anticipate making quarterly distributions and typically consider tax distributions on an annual basis but allocate taxable income on a monthly basis. As a result, if you dispose of your common units, you may be allocated taxable income during the time you held your common units without receiving any cash distributions corresponding to that period. Accordingly, each holder should ensure that it has sufficient cash flow from other sources to pay all tax liabilities.

***Our interests in certain of our businesses will be held through intermediate holding companies, which will be treated as corporations for U.S. federal income tax purposes; such corporations will be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of our common units.***

In light of the publicly traded partnership rules under U.S. federal income tax laws and other requirements, we will hold our interest in certain of our businesses through intermediate holding companies, which will be treated as corporations for U.S. federal income tax purposes. These intermediate holding companies will be liable for U.S. federal income taxes on all of their taxable income and applicable state, local and other taxes. These taxes would reduce the amount of distributions available to be made on our common units. In addition, these taxes could be increased if the IRS were to successfully reallocate deductions or income of the related entities conducting our business.

***Changes in U.S. tax law could adversely affect our ability to raise funds from certain foreign investors.***

Under the U.S. Foreign Account Tax Compliance Act, or FATCA, all entities in a broadly defined class of foreign financial institutions, or FFIs, are required to comply with a complicated and expansive reporting regime or, beginning in 2014, be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2015, a 30% withholding tax on gross proceeds from the sale of U.S. stocks and securities) and non-U.S. entities which are not FFIs are required to either certify they have no substantial U.S. beneficial ownership or to report certain information with respect to their substantial U.S. beneficial ownership or, beginning in 2014, be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2015, a 30% withholding tax on gross proceeds from the

Table of Contents

sale of U.S. stocks and securities). The reporting obligations imposed under FATCA require FFIs to enter into agreements with the IRS to obtain and disclose information about certain investors to the IRS. Regulations implementing FATCA have not yet been finalized. Recently issued proposed regulations if finalized would delay the implementation of certain reporting requirements under FATCA but no assurance can be given that the proposed regulations will be finalized or that any final regulations will include any delay. Accordingly, some foreign investors may hesitate to invest in U.S. funds until there is more certainty around FATCA implementation. In addition, the administrative and economic costs of compliance with FATCA may discourage some foreign investors from investing in U.S. funds, which could adversely affect our ability to raise funds from these investors.

***Complying with certain tax-related requirements may cause us to invest through foreign or domestic corporations subject to corporate income tax or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.***

In order for us to be treated as a partnership for U.S. federal income tax purposes and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis and we must not be required to register as an investment company under the Investment Company Act. In order to effect such treatment, we or our subsidiaries may be required to invest through foreign or domestic corporations subject to corporate income tax, or enter into acquisitions, borrowings, financings or other transactions we may not have otherwise entered into.

***We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. federal income tax purposes.***

Certain of our investments may be in foreign corporations or may be acquired through a foreign subsidiary that would be classified as a corporation for U.S. federal income tax purposes. Such an entity may be PFIC for U.S. federal income tax purposes. In addition, we may hold certain investments in foreign corporations that are treated as CFCs. Unitholders may experience adverse U.S. tax consequences as a result of holding an indirect interest in a PFIC or CFC. These investments may produce taxable income prior to the receipt of cash relating to such income, and unitholders that are U.S. taxpayers will be required to take such income into account in determining their taxable income. In addition, gain on the sale of a PFIC or CFC may be taxable at ordinary income rates.

***Tax gain or loss on disposition of our common units could be more or less than expected.***

If you sell your common units, you will recognize a gain or loss equal to the difference between the amount realized and your adjusted tax basis allocated to those common units. Prior distributions to you in excess of the total net taxable income allocated to you will have decreased the tax basis in your common units. Therefore, such excess distributions will increase your taxable gain, or decrease your taxable loss, when the common units are sold and may result in a taxable gain even if the sale price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to you.

***Unitholders may be allocated taxable gain on the disposition of certain assets, even if they did not share in the economic appreciation inherent in such assets.***

We and our intermediate holding companies will be allocated taxable gains and losses recognized by the KKR Group Partnerships based upon our percentage ownership in each KKR Group Partnership. Our share of such taxable gains and losses generally will be allocated pro rata to our unitholders. In some circumstances, under the U.S. federal income tax rules affecting partners and partnerships, the taxable gain or loss allocated to a unitholder may not correspond to that unitholder's share of the economic appreciation or depreciation in the particular asset. This is primarily an issue of

Table of Contents

the timing of the payment of tax, rather than a net increase in tax liability, because the gain or loss allocation would generally be expected to be offset as a unitholder sold units.

***Non-U.S. persons face unique U.S. tax issues from owning our common units that may result in adverse tax consequences to them.***

We expect that we will be engaged in a U.S. trade or business for U.S. federal income tax purposes, including by reason of investments in U.S. real property holding corporations and natural resource assets, such as real estate or oil and gas investments, in which case some portion of its income would be treated as effectively connected income with respect to non-U.S. holders, or ECI. To the extent our income is treated as ECI, non-U.S. unitholders generally would be subject to withholding tax on their allocable share of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable share of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. unitholders that are corporations may also be subject to a 30% branch profits tax on their actual or deemed distributions of such income. In addition, distributions to non-U.S. unitholders that are attributable to the sale of a U.S. real property interest may also be subject to 30% withholding tax. Also, non-U.S. unitholders may be subject to 30% withholding on allocations of our income that are U.S. source fixed or determinable annual or periodic income under the Internal Revenue Code, unless an exemption from or a reduced rate of such withholding applies and certain tax status information is provided.

***Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.***

Generally, a tax-exempt partner of a partnership would be treated as earning unrelated business taxable income, or UBTI, if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partner interest itself is debt-financed. As a result of incurring acquisition indebtedness we will derive income that constitutes UBTI. Consequently, a holder of common units that is a tax-exempt organization will likely be subject to unrelated business income tax to the extent that its allocable share of our income consists of UBTI. In addition, a tax-exempt investor may be subject to unrelated business income tax on a sale of their common units.

***We cannot match transferors and transferees of common units, and we will therefore adopt certain income tax accounting conventions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.***

Because we cannot match transferors and transferees of common units, we will adopt depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our unitholders' tax returns.

In addition, our taxable income and losses will be determined and apportioned among investors using conventions we regard as consistent with applicable law. As a result, if you transfer your common units, you may be allocated income, gain, loss and deduction realized by us after the date of transfer. Similarly, a transferee may be allocated income, gain, loss and deduction realized by us prior to the date of the transferee's acquisition of our common units. A transferee may also bear the cost of withholding tax imposed with respect to income allocated to a transferor through a reduction in the cash distributed to the transferee.



Table of Contents

***The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes.***

We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A termination of our partnership would, among other things, result in the closing of our taxable year for all unitholders.

***Holders of our common units may be subject to state, local and foreign taxes and return filing requirements as a result of owning such units.***

In addition to U.S. federal income taxes, holders of our common units may be subject to other taxes, including state, local and foreign taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if the holders of our common units do not reside in any of those jurisdictions. Holders of our common units may be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions in the U.S. and abroad. Further, holders of our common units may be subject to penalties for failure to comply with those requirements. It is the responsibility of each unitholder to file all U.S. federal, state, local and foreign tax returns that may be required of such unitholder. Our counsel has not rendered an opinion on the state, local or foreign tax consequences of owning our units. In addition our investments in real assets may expose unitholders to additional adverse tax consequences. See " Our investments in real assets such as real estate and natural resources may expose us to increased risks and liabilities and may expose our unitholders to adverse tax consequences."

***We may not be able to furnish to each unitholder specific tax information within 90 days after the close of each calendar year, which means that holders of common units who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax return.***

As a publicly traded partnership, our operating results, including distributions of income, dividends, gains, losses or deductions, and adjustments to carrying basis, will be reported on Schedule K-1 and distributed to each unitholder annually. It may require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that Schedule K-1s may be prepared for the unitholders. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our principal executive offices are located in leased office space at 9 West 57th Street, New York, New York. We also lease the space for our other offices. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

**ITEM 3. LEGAL PROCEEDINGS**

The section entitled "Litigation" appearing in Note 13 "Commitments and Contingencies" of our financial statements included elsewhere in this report is incorporated herein by reference.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our common units representing limited partner interests are traded on the New York Stock Exchange ("NYSE") under the symbol "KKR." Our common units began trading on the NYSE on July 15, 2010.

The following table sets forth the high and low intra-day sales prices per unit of our common units, for the periods indicated, as reported by the NYSE.

	Sales price			
	2011		2010	
	High	Low	High	Low
First Quarter	\$ 18.29	\$ 14.09	N/A	N/A
Second Quarter	\$ 19.16	\$ 15.10	N/A	N/A
Third Quarter	\$ 16.70	\$ 10.07	\$ 11.08	\$ 8.64
Fourth Quarter	\$ 14.58	\$ 8.95	\$ 14.81	\$ 10.40

The number of holders of record of our common units as of February 23, 2012 was nine. This does not include the number of unitholders that hold shares in "street-name" through banks or broker-dealers.

**Distribution Policy**

The following table presents the distributions paid to holders of our common units at the close of business on the specified record date since our common units began trading on the NYSE:

Payment Date	Record Date	Distribution per unit
September 8, 2010	August 24, 2010	\$ 0.08
November 26, 2010	November 12, 2010	\$ 0.15
March 21, 2011	March 7, 2011	\$ 0.29
May 27, 2011	May 16, 2011	\$ 0.21
August 30, 2011	August 15, 2011	\$ 0.11
November 29, 2011	November 14, 2011	\$ 0.10

We have declared a distribution of \$0.32 per common unit payable on March 6, 2012 to unitholders of record as of the close of business on February 21, 2012.

We intend to make quarterly cash distributions in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of our investment management business each year in excess of amounts determined by us to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our investment funds and to comply with applicable law and any of our debt instruments or other agreements. We do not intend to distribute gains on principal investments, other than certain additional distributions that we may determine to make. These additional distributions, if any, are intended to cover certain tax liabilities, as calculated by us. When KKR & Co. L.P. receives distributions from the KKR Group Partnerships (the holding companies of our business), KKR Holdings receives its pro rata share of such distributions from the KKR Group Partnerships. For the purposes of our distribution policy, our distributions are expected to consist of (i) FRE, (ii) carry distributions received from our investment funds which have not been allocated as part of our carry pool, and (iii) additional distributions for certain taxes as described above. This amount is expected to be reduced by (i) corporate and applicable local taxes, if any,

Table of Contents

(ii) noncontrolling interests, and (iii) amounts determined by us to be necessary or appropriate for the conduct of our business and other matters as discussed above.

Our distribution policy reflects our belief that distributing substantially all of the cash earnings of our investment management business will provide transparency for holders of our common units and impose on us an investment discipline with respect to the businesses and strategies that we pursue.

Because we make our investment in our business 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 we invest, in proportion to their percentage interests in the KKR Group Partnerships;

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

Third, we will distribute to holders of our units the amount of any distributions that we receive from our holding companies through which we invest.

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 we determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. We expect 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 our income). A portion of any such tax distributions received by us, net of amounts used by our subsidiaries to pay their tax liability, is expected to be distributed by us. 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 us. There can be no assurance that, for any particular holder, such distributions will be sufficient to pay such holder's actual U.S. or non-U.S. tax liability.

The declaration and payment of any distributions are subject to the discretion of the board of directors of our Managing Partner and the terms of our limited partnership agreement. There can be no assurance that distributions will be made as intended or at all or that such distributions will be sufficient to pay any particular KKR & Co. L.P. unitholder's actual U.S. or non-U.S. tax liability. In particular, the amount and timing of distributions will depend upon a number of factors, including, among others, our available cash and current and anticipated cash needs, including funding of investment commitments and debt service and future debt repayment obligations; general economic and business conditions; our strategic plans and prospects; our results of operations and financial condition; our capital requirements; legal, contractual and regulatory restrictions on the payment of distributions by us or our subsidiaries, including restrictions contained in our debt agreements, and such other factors as the board of directors of our Managing Partner considers relevant. The Managing Partner may change the distribution policy at any time. We are not currently restricted by any contract from making distributions to our unitholders, although certain of our subsidiaries are bound by credit agreements that contain certain restricted payment and/or other covenants, which may have the effect

Table of Contents

of limiting the amount of distributions that we receive from our subsidiaries. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity Sources of Cash". In addition, under Section 17-607 of the Delaware Limited Partnership Act, we will not be permitted to make a distribution if, after giving effect to the distribution, our liabilities would exceed the fair value of our assets.

**Common Unit Repurchases in the Fourth Quarter of 2011**

No purchases of our common units were made by us or on our behalf in the fourth quarter of the year ended December 31, 2011. During the fourth quarter of 2011, 3,865,722 KKR Group Partnership Units were exchanged by KKR Holdings and our principals for an equal number of our common units, resulting in an increase in our ownership of the KKR Group Partnerships and a corresponding decrease in the ownership of the KKR Group Partnerships by KKR Holdings.

**ITEM 6. SELECTED FINANCIAL DATA**

The following tables set forth our selected historical consolidated and combined financial data (i) as of and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007. We derived the selected historical consolidated and combined financial data as of December 31, 2011 and 2010 and for the years ending December 31, 2011, 2010 and 2009 from the audited consolidated and combined financial statements included elsewhere in this report. We derived the selected historical combined data as of December 31, 2009, 2008 and 2007 and for the years ended December 31, 2008 and 2007 from our audited combined financial statements which are not included in this report. You should read the following data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated and combined financial statements and related notes included elsewhere in this report.

	Year Ended December 31,(1)				
	2011	2010	2009	2008	2007
	(\$ in thousands)				
<b>Statement of Operations Data:</b>					
Fees	\$ 723,620	\$ 435,386	\$ 331,271	\$ 235,181	\$ 862,265
Less: Total Expenses	1,214,005	1,762,663	1,195,710	418,388	440,910
Total Investment Income (Loss)	1,456,116	9,179,108	7,753,808	(12,865,239)	1,991,783
Income (Loss) Before Taxes	965,731	7,851,831	6,889,369	(13,048,446)	2,413,138
Income Taxes	89,245	75,360	36,998	6,786	12,064
Net Income (Loss)	876,486	7,776,471	6,852,371	(13,055,232)	2,401,074
Less: Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	4,318				
Less: Net Income (Loss) Attributable to Noncontrolling Interests	870,247	7,443,293	6,002,686	(11,850,761)	1,598,310
Net Income (Loss) Attributable to KKR & Co. L.P.(2)	\$ 1,921	\$ 333,178	\$ 849,685	\$ (1,204,471)	\$ 802,764

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Table of Contents

	<b>October 1, 2009 through December 31, 2009</b>					
<b>Net Loss Attributable to KKR &amp; Co. L.P.</b>	\$ (78,221)					
<b>Distributions Declared per KKR &amp; Co. L.P. Common Unit</b>	\$ 0.74	\$ 0.60	\$ 0.08	\$	\$	\$
<b>Net Income (Loss) Attributable to KKR &amp; Co. L.P. Per Common Unit</b>						
Basic	\$ 0.01	\$ 1.62	\$ (0.38)	\$	\$	\$
Diluted	\$ 0.01	\$ 1.62	\$ (0.38)	\$	\$	\$
<b>Weighted Average Common Units Outstanding</b>						
Basic	220,235,469	206,031,682	204,902,226			
Diluted	222,519,174	206,039,244	204,902,226			
<b>Statement of Financial Condition Data (period end):</b>						
Total Assets	\$ 40,377,645	\$ 38,391,157	\$ 30,221,111	\$ 22,441,030	\$ 32,842,796	\$
Total Liabilities	\$ 2,692,995	\$ 2,391,115	\$ 2,859,630	\$ 2,590,673	\$ 2,575,636	\$
Redeemable Noncontrolling Interests	\$ 275,507	\$	\$	\$	\$	\$
Noncontrolling Interests	\$ 36,080,445	\$ 34,673,549	\$ 26,347,632	\$ 19,698,478	\$ 28,749,814	\$
Total KKR & Co. L.P. Partners' Capital(3)	\$ 1,328,698	\$ 1,326,493	\$ 1,013,849	\$ 151,879	\$ 1,517,346	\$

- (1) The financial information reported for periods prior to October 1, 2009 does not give effect to the Transactions.
- (2) Subsequent to the Transactions, net income (loss) attributable to KKR & Co. L.P. reflects only those amounts that are allocable to KKR & Co. L.P.'s interest in our Combined Business. Net income (loss) that is allocable to our principals' interest in our Combined Business is reflected in net income (loss) attributable to noncontrolling interests.
- (3) Total KKR & Co. L.P. partners' capital reflects only the portion of equity attributable to KKR & Co. L.P. (representing KKR & Co. L.P.'s 33.24% interest in our Combined Business as of December 31, 2011) and differs from book value reported on a segment basis primarily as a result of the exclusion of the equity impact of KKR Management Holdings Corp. and allocations of equity to KKR Holdings. KKR Holdings' 66.76% interest in our Combined Business as of December 31, 2011 is reflected as noncontrolling interests and is not included in total KKR & Co. L.P. partners' capital.

Table of Contents

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with the consolidated and combined financial statements of KKR and the related notes included elsewhere in this report. The historical consolidated and combined financial data discussed below reflects the historical results and financial position of KKR. In addition, this discussion and analysis contains forward looking statements and involves numerous risks and uncertainties, including those described under "Cautionary Note Regarding Forward Looking Statements" and "Risk Factors." Actual results may differ materially from those contained in any forward looking statements.*

**Overview**

Led by Henry Kravis and George Roberts, we are a leading global investment firm with \$59.0 billion in AUM as of December 31, 2011 and a 35-year history of leadership, innovation and investment excellence. When our founders started our firm in 1976, they established the principles that guide our business approach today, including a patient and disciplined investment process; the alignment of our interests with those of our investors, portfolio companies and other stakeholders; and a focus on attracting world class talent.

Our business offers a broad range of investment management services to our investors and provides capital markets services to our firm, our portfolio companies and our third-party clients. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 200 private equity investments with a total transaction value in excess of \$465 billion. In recent years, we have grown our firm by expanding our geographical presence and building businesses in new areas, such as fixed income, equity strategies, capital markets, infrastructure, natural resources and real estate. Our new efforts build on our core principles and industry expertise, allowing us to leverage the intellectual capital and synergies in our businesses, and to capitalize on a broader range of the opportunities we source. Additionally, we have increased our focus on servicing our existing investors and have invested meaningfully in developing relationships with new investors.

We conduct our business with offices throughout the world, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

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

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

Table of Contents

aspects of our business will help us continue to expand and grow our business and deliver strong investment performance in a variety of economic and financial conditions.

**Business Segments**

*Private Markets*

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

*Public Markets*

Through the Public Markets segment, KKR manages KFN, a specialty finance company, as well as a number of investment funds, structured finance vehicles and separately managed accounts that invest capital in (i) leveraged credit strategies, such as leveraged loans and high yield bonds, (ii) liquid long/short equity strategies and (iii) alternative credit strategies such as mezzanine investments, special situations investments and direct senior lending. These funds, vehicles and accounts are managed by KKR Asset Management LLC, an SEC registered investment adviser.

*Capital Markets and Principal Activities*

Our Capital Markets and Principal Activities segment combines our principal assets with our global capital markets business. Our capital markets business supports our firm, our portfolio companies and select third-party clients by providing tailored capital markets advice and by developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing. Our capital markets services include arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets services. Our principal asset base includes investments in our investment funds and co-investments in certain portfolio companies of such funds.

**Business Environment**

As a global investment firm, we are affected by financial and economic conditions in North America, Europe, Asia and elsewhere in the world. At the moment, the current global economic environment remains somewhat unbalanced. China, for example, currently accounts for a third of global economic growth. All told, Asia is now driving a substantial portion of total global economic growth. At the same time, Europe continues to experience downward growth trends as sovereign debt issues have affected consumer and business behavior.

Global equity markets have a substantial effect on our financial condition and results of operations, as equity prices, which have been and may continue to be volatile, significantly impact the valuation of our portfolio companies and, therefore, the investment income that we recognize. For our investments that are publicly listed and thus have readily observable market prices, global equity markets have a direct impact on valuation. For other investments, these markets have an indirect impact on valuation as we typically utilize a market multiples valuation approach as one of the methodologies to ascertain fair value of our investments that do not have readily observable market prices. In addition, the receptivity of equity markets to initial public offerings, or IPOs, as well as subsequent equity offerings by companies already public, impacts our ability to realize investment gains.

Global equity markets were mixed for the full year of 2011 as strong earnings growth was largely offset by trading multiple compressions in many regions. Volatility also remained outsized as the

Table of Contents

Chicago Board Options Exchange Market Volatility Index, or the VIX, a measure of volatility, rose from a low of 14.6 in April 2011 to a peak of 48.0 in August 2011. Ongoing developments such as the status of the U.S economic recovery, Europe's sovereign debt crisis and moderating growth expectations in China and Brazil continue to contribute to market uncertainty and volatility. In 2011, on a total-return basis, the S&P 500 Index posted a full-year gain of 2.1%, while the MSCI World Index posted a decline of 5.0%. The below-investment grade credit markets appreciated modestly with the S&P/LSTA Leveraged Loan Index and the BofA Merrill Lynch High Yield Master II Index increasing 1.5% and 4.4% in 2011, respectively.

Conditions in global credit markets also have a substantial effect on our financial condition and results of operations. We rely on the ability of our funds to obtain committed debt financing on favorable terms in order to complete new private equity transactions. Similarly, our portfolio companies regularly require access to the global credit markets in order to obtain financing for their operations and to refinance or extend the maturities of their outstanding indebtedness. To the extent that conditions in the credit markets render such financing difficult to obtain or more expensive, this may negatively impact the operating performance and valuations of those portfolio companies and, therefore, our investment returns on our funds. In addition, during economic downturns or periods of slow economic growth, the inability to refinance or extend the maturities of portfolio company debt (and thereby extend our investment holding period) may hinder our ability to realize investment gains from these portfolio companies when economic conditions improve. Credit markets can also impact valuations. For example, we typically use a discounted cash flow analysis as one of the methodologies to ascertain the fair value of our investments that do not have readily observable market prices. If applicable interest rates rise, then the assumed cost of capital for those portfolio companies would be expected to increase under the discounted cash flow analysis, and this effect would negatively impact their valuations if not offset by other factors. Conversely, a fall in interest rates can positively impact valuations of certain portfolio companies if not offset by other factors. During 2011, a fall in applicable interest rates had the effect of positively impacting the valuations of portfolio companies using a discounted cash flow analysis to ascertain fair value. In certain cases, the valuations obtained from the discounted cash flow analysis and the other primary methodology we use, the market multiples approach, may yield different and offsetting results. For example, the positive impact of falling interest rates on discounted cash flow valuations may offset the negative impact of the market multiples valuation approach and may result in less of a decline in value than for those investments that had a readily observable market price.

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

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

Finally, conditions in commodity markets may impact the performance of our portfolio companies in a variety of ways, including through direct or indirect impact on the cost of the inputs used in their operations as well as the pricing and profitability of the products or services that they sell. The price of commodities has historically been subject to substantial volatility and certain commodity prices have risen considerably, driven by growing demand from emerging markets and increased central bank liquidity in the system. If certain of our portfolio companies are unable to raise prices to offset increases in the cost of raw materials or other inputs, or if consumers defer purchases of or seek



Table of Contents

substitutes for the products of such portfolio companies, such portfolio companies could experience lower operating income which may in turn reduce the valuation of those portfolio companies. However, the results of operations and valuations of certain of our other portfolio companies, for example those involved in the development of oil and natural gas properties, may benefit from an increase in commodity prices.

**Basis of Financial Presentation**

The consolidated financial statements include the accounts of our management and capital markets companies, certain variable interest entities, the general partners of certain unconsolidated co-investment vehicles and the general partners of our private equity and fixed income funds and their respective consolidated funds, where applicable.

In accordance with accounting principles generally accepted in the United States of America, or GAAP, certain entities, including a substantial number of our funds, are consolidated notwithstanding the fact that we may hold only a minority economic interest or non-economic variable interest in those entities. In particular, the majority of our consolidated funds consist of funds in which we hold a general partner or managing member interest that gives us substantive controlling rights over such funds. With respect to our consolidated funds, we generally have operational discretion and control over the funds and investors do not hold any substantive rights that would enable them to impact the funds' ongoing governance and operating activities. As of December 31, 2011, our Private Markets segment included ten consolidated investment funds and thirteen unconsolidated co-investment vehicles. Our Public Markets segment included eight consolidated investment vehicles and nine unconsolidated vehicles.

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

**Key Financial Measures**

*Fees*

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

Fees reported in our consolidated financial statements do not include the management or incentive fees that we earn from consolidated funds, because those fees are eliminated in consolidation. However, because those management fees are earned from, and funded by, third-party investors who hold noncontrolling interests in the consolidated funds, net income attributable to KKR is increased by

Table of Contents

the amount of the management fees that are eliminated in consolidation. Accordingly, while the consolidation of funds impacts the amount of fees that are recognized in our financial statements, it does not affect the ultimate amount of net income attributable to KKR or KKR's partners' capital.

For a further discussion of our fee policies, see " Critical Accounting Policies Fees."

**Expenses**

*Compensation and Benefits*

Compensation and Benefits expense includes cash compensation consisting of salaries, bonuses, and benefits, as well as equity-based payments consisting of charges associated with the vesting of equity-based awards and carry pool allocations.

All KKR principals and other employees of certain consolidated entities receive a base salary that is paid by KKR or its consolidated entities, and is accounted for as Compensation and Benefits expense. These employees are also eligible to receive discretionary cash bonuses based on performance, overall profitability and other matters. While cash bonuses paid to most employees are funded by KKR and certain consolidated entities and result in customary Compensation and Benefits expense, cash bonuses that are paid to certain of KKR's 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 is funded by KKR Holdings and reflected in Compensation and Benefits in the consolidated statements of operations.

*General, Administrative and Other*

General, administrative and other expense consists primarily of professional fees paid to legal advisors, accountants, advisors and consultants, insurance costs, travel and related expenses, communications and information services, depreciation and amortization charges and other general and operating expenses which are not borne by fund investors and are not offset by credits attributable to fund investors' noncontrolling interests in consolidated funds. General, administrative and other expense also consists of costs incurred in connection with pursuing potential investments that do not result in completed transactions, a substantial portion of which are borne by fund investors.

**Investment Income (Loss)**

*Net Gains (Losses) from Investment Activities*

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

Table of Contents

*Dividend Income*

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

*Interest Income*

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

*Interest Expense*

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

*Income Taxes*

The KKR Group Partnerships and certain of their subsidiaries operate in the United States as partnerships for U.S. federal income tax purposes and as corporate entities in non-U.S. jurisdictions. Accordingly, these entities, in some cases, are subject to New York City unincorporated business taxes, or non-U.S. income taxes. Furthermore, we hold our interest in one of the KKR Group Partnerships through KKR Management Holdings Corp., which is treated as a corporation for U.S. federal income tax purposes, and certain other wholly-owned subsidiaries of the KKR Group Partnerships are treated as corporations for U.S. federal income tax purposes. Accordingly, such wholly-owned subsidiaries of KKR, including KKR Management Holdings Corp., and of the KKR Group Partnerships, are subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to KKR's share of this income is reflected in the financial statements. We expect that interest income to our unitholders and interest deductions to KKR Management Holdings Corp. should increase in future periods as a result of a 2011 recapitalization of KKR Management Holdings Corp.

We use the liability method to account for income taxes in accordance with GAAP. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that all or a portion of the deferred tax assets will not be realized.

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

*Net Income (Loss) Attributable to Noncontrolling Interests*

Net income (loss) attributable to noncontrolling interests represents the ownership interests that third parties hold in entities that are consolidated in the financial statements as well as the ownership

Table of Contents

interests in our KKR Group Partnerships that are held by KKR Holdings. The allocable share of income and expense attributable to these interests is accounted for as net income (loss) attributable to noncontrolling interests. Historically, the amount of net income (loss) attributable to noncontrolling interests has been substantial and has resulted in significant charges and credits in the statements of operations. Given the consolidation of certain of our investment funds and the significant ownership interests in our KKR Group Partnerships held by KKR Holdings, we expect this activity to continue.

***Segment Operating and Performance Measures***

The reportable segments for KKR's business are presented prior to giving effect to the allocation of income (loss) between KKR & Co. L.P. and KKR Holdings and as such represent the business in total.

KKR discloses the following financial measures in this report that are calculated and presented using methodologies other than in accordance with GAAP. We believe that providing these performance measures on a supplemental basis to our GAAP results is helpful to investors in assessing the overall performance of KKR's businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with GAAP. We caution readers that these non-GAAP financial measures may differ from the calculations of other investment managers, and as a result, may not be comparable to similar measures presented by other investment managers. Reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP, where applicable, are included within "Financial Statements and Supplementary Data Note 12. Segment Reporting."

***Fee Related Earnings ("FRE")***

Fee related earnings is comprised of segment operating revenues less segment operating expenses and is used by management as an alternative measurement of the operating earnings of KKR and its business segments before investment income. We believe this measure is useful to investors as it provides additional insight into the operating profitability of our fee generating management companies and capital markets businesses. 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 fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity charges and other non-cash compensation charges borne by KKR Holdings or incurred under the KKR & Co. L.P. 2010 Equity Incentive Plan; (vi) the exclusion of certain reimbursable expenses; and (vii) the exclusion of certain non-recurring items.

***Economic Net Income (Loss) ("ENI")***

Economic net income (loss) is a measure of profitability for KKR's reportable segments and is used by management as an alternative measurement of the operating and investment earnings of KKR and its business segments. We believe this measure is useful to investors as it provides additional insight into the overall profitability of KKR's businesses inclusive of investment income and carried interest. ENI is comprised of: (i) FRE; plus (ii) segment investment income (loss), 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 (loss) relating to noncontrolling interests; and (iii) the exclusion of income taxes.

Table of Contents

*Assets Under Management ("AUM")*

Assets under management represent the assets from which KKR is entitled to receive fees or a carried interest and general partner capital. We believe this measure is useful to investors as it provides additional insight into KKR's capital raising activities and the overall activity in its investment funds and vehicles. KKR calculates the amount of AUM as of any date as the sum of: (i) the fair value of the investments of KKR's investment funds plus uncalled capital commitments from these funds; (ii) the fair value of investments in KKR's co-investment vehicles; (iii) the net asset value of certain of KKR's fixed income products; (iv) the value of outstanding structured finance vehicles; and (v) the fair value of other assets managed by KKR. KKR's definition of AUM is not based on the definition of AUM that may be set forth in the agreements governing the investment funds, vehicles or accounts that it manages or calculated pursuant to any regulatory definitions.

*Fee Paying AUM ("FPAUM")*

Fee paying AUM ("FPAUM") represents only those assets under management from which KKR receives fees. We believe this measure is useful to investors as it provides additional insight into the capital base upon which KKR earns management fees. This relates to KKR's capital raising activities and the overall activity in its investment funds and vehicles, for only those funds and vehicles where KKR receives fees (i.e., excluding vehicles that receive only carried interest or general partner capital). FPAUM is the sum of all of the individual fee bases that are used to calculate KKR's fees and differs from AUM in the following respects: (i) assets from which KKR does not receive a fee are excluded (i.e., assets with respect to which it receives only carried interest) and (ii) certain assets, primarily in its private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments.

*Committed Dollars Invested*

Committed dollars invested is the aggregate amount of capital commitments that have been invested by KKR's investment funds and carry-yielding co-investment vehicles and is used as a measure of investment activity for KKR and its business segments during a given period. We believe this measure is useful to investors as it provides additional insight into KKR's investment of committed capital. Such amounts include: (i) capital invested by fund investors and co-investors with respect to which KKR is entitled to a fee or carried interest and (ii) capital invested by KKR's investment funds and vehicles.

*Uncalled Commitments*

Uncalled commitments are used as a measure of unfunded capital commitments that KKR's investment funds and carry-paying co-investment vehicles have received from partners to contribute capital to fund future investments. We believe this measure is useful to investors as it provides additional insight into the amount of capital that is available to KKR's investment funds and vehicles to make future investments.

*Adjusted Units*

Adjusted units are used as a measure of the total equity ownership of KKR that is held by KKR & Co. L.P. and KKR Holdings and represent the fully diluted unit count using the if-converted method. We believe this measure is useful to investors as it provides an indication of the total equity ownership of KKR as if all outstanding KKR Holdings units had been exchanged for common units of KKR & Co. L.P.

Table of Contents

*Book Value*

Book value is a measure of the net assets of KKR's reportable segments and is used by management primarily in assessing the unrealized value of our investment portfolio, including carried interest, as well as our overall liquidity position. We believe this measure is useful to investors as it provides additional insight into the assets and liabilities of KKR excluding the assets and liabilities that are allocated to noncontrolling interest holders. Book value differs from the equivalent GAAP amounts on a consolidated basis primarily as a result of the exclusion of ownership interests in consolidated investment vehicles and other entities that are attributable to noncontrolling interests.

*Cash and Short-Term Investments*

Cash and short-term investments represent cash and liquid short-term investments in high-grade, short-duration cash management strategies used by KKR to generate additional yield on our excess liquidity and is used by management in evaluating KKR's liquidity position. We believe this measure is useful to investors as it provides additional insight into KKR's available liquidity. Cash and short-term investments differ from cash and cash equivalents on a GAAP basis as a result of the inclusion of liquid short-term investments in cash and short-term investments. The impact that these liquid short-term investments have on cash and cash equivalents on a GAAP basis is reflected in the consolidated and combined statements of cash flows within cash flows from operating activities. Accordingly, the exclusion of these investments from cash and cash equivalents on a GAAP basis has no impact on cash provided (used) by operating activities, investing activities or financing activities. As of December 31, 2011, we had cash and short-term investments on a segment basis of \$989.4 million, which, with the addition of \$146.1 million of liquid short-term investments, may be reconciled to cash and cash equivalents of \$843.3 million.

Table of Contents**Consolidated and Combined Results of Operations**

The following tables set forth information regarding our results of operations for the years ended December 31, 2011, 2010 and 2009.

	Years Ended December 31,		
	2011	2010	2009
	(\$ in thousands)		
<b>Revenues</b>			
Fees	\$ 723,620	\$ 435,386	\$ 331,271
<b>Expenses</b>			
Compensation and Benefits	868,749	1,344,455	838,072
Occupancy and Related Charges	54,282	39,692	38,013
General, Administrative and Other	290,974	378,516	319,625
<b>Total Expenses</b>	<b>1,214,005</b>	<b>1,762,663</b>	<b>1,195,710</b>
<b>Investment Income (Loss)</b>			
Net Gains (Losses) From Investment Activities	981,858	7,755,090	7,505,005
Dividend Income	225,073	1,250,293	186,324
Interest Income	321,943	226,824	142,117
Interest Expense	(72,758)	(53,099)	(79,638)
<b>Total Investment Income (Loss)</b>	<b>1,456,116</b>	<b>9,179,108</b>	<b>7,753,808</b>
<b>Income (Loss) Before Taxes</b>	<b>965,731</b>	<b>7,851,831</b>	<b>6,889,369</b>
Income Taxes	89,245	75,360	36,998
<b>Net Income (Loss)</b>	<b>876,486</b>	<b>7,776,471</b>	<b>6,852,371</b>
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	4,318		
Net income (Loss) Attributable to Noncontrolling Interests	870,247	7,443,293	6,002,686
<b>Net Income (Loss) Attributable to KKR &amp; Co. L.P.</b>	<b>\$ 1,921</b>	<b>\$ 333,178</b>	<b>\$ 849,685</b>

***Year ended December 31, 2011 compared to year ended December 31, 2010******Fees***

Fees were \$723.6 million for the year ended December 31, 2011, an increase of \$288.2 million, compared to fees of \$435.4 million for the year ended December 31, 2010. The net increase was primarily due to (i) an increase in gross monitoring fees of \$76.8 million, (ii) an increase in gross transaction fees of \$65.5 million, (iii) an increase in capital markets fees of \$65.2 million and (iv) an increase in consulting fees of \$56.1 million earned by an entity that was not consolidated prior to 2011. The increase in gross monitoring fees was primarily the result of \$76.6 million in fees received during the current year relating to the termination of monitoring agreements in connection with the IPOs of two portfolio companies, HCA, Inc. (NYSE: HCA) and The Nielsen Company (NYSE: NLSN), and the sale of Seven Media Group (ASX: SWM). Termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with IPO or other sale activity in our private equity portfolio. Excluding the impact of termination payments and consulting fees, during the year ended December 31, 2011, we had 36 portfolio companies that were paying an average monitoring fee of \$2.3 million compared with 33 portfolio companies that were paying an average monitoring fee of \$2.6 million during the year ended December 31, 2010. The increase in transaction fees was primarily

Table of Contents

driven by an increase of \$70.6 million in gross transaction fees received from transaction fee-generating investments, reflecting an increase in both the number and size of transaction fee-generating investments during the period. During 2011 there were 19 transaction fee-generating investments with a total combined transaction value of approximately \$24.9 billion as compared to 13 transaction fee-generating investments with a total combined transaction value of approximately \$9.9 billion during 2010. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular negotiations as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The increase in capital markets fees is primarily due to an increase in fees relating to underwriting, syndication, and other capital markets services driven by an increase in the number of capital markets transactions during 2011.

*Expenses*

Expenses were \$1.2 billion for the year ended December 31, 2011, a decrease of \$0.6 billion, compared to \$1.8 billion for the year ended December 31, 2010. The decrease was primarily due to the net effect of (i) a net decrease in equity-based payments of \$690.0 million offset partially by (ii) an increase in cash-based compensation and benefits of \$84.0 million. The net decrease in equity-based payments is due primarily to fewer KKR Holdings units vesting for expense recognition purposes under the graded attribution method of expense recognition, as well as a lower carry pool allocation as a result of the recognition of lower carried interest during 2011 as compared to the comparable prior period. The increase in cash-based compensation and benefits reflects the hiring of additional personnel and the inclusion of compensation incurred by an entity that was not consolidated prior to 2011. The remaining increases were due primarily to increases in occupancy and other operating expenses driven by the continued expansion of KKR's businesses during 2011.

*Net Gains (Losses) from Investment Activities*

Net gains from investment activities were \$1.0 billion for the year ended December 31, 2011, a decrease of \$6.8 billion, compared to a net gain of \$7.8 billion for the year ended December 31, 2010, primarily driven by a lower level of appreciation in our private equity portfolio. The following is a summary of net gains (losses) from investment activities:

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
	(\$ in thousands)	
Private Equity Investments	\$ 1,006,925	\$ 7,511,340
Other Net Gains (Losses) from Investment Activities	(25,067)	243,750
<b>Net Gains (Losses) from Investment Activities</b>	<b>\$ 981,858</b>	<b>\$ 7,755,090</b>

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



Table of Contents

Analysis Private Markets Segment" for further information regarding gains and losses in our private equity portfolio:

	Year Ended December 31,	
	2011	2010
	(\$ in thousands)	
Realized Gains	\$ 3,962,550	\$ 2,474,584
Unrealized Losses from Sales of Investments and Realization of Gains(a)	(3,844,707)	(2,484,878)
Realized Losses	(690,107)	(122,876)
Unrealized Gains from Sales of Investments and Realization of Losses(b)	681,952	157,874
Unrealized Gains from Changes in Fair Value	6,960,554	10,010,038
Unrealized Losses from Changes in Fair Value	(6,063,317)	(2,523,402)
<b>Net Gains (Losses) from Investment Activities Private Equity Investments</b>	<b>\$ 1,006,925</b>	<b>\$ 7,511,340</b>

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

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

*Dividend Income*

Dividend income was \$225.1 million for the year ended December 31, 2011, a decrease of \$1.1 billion, compared to dividend income of \$1.3 billion for the year ended December 31, 2010. During the year ended December 31, 2011, we received \$82.4 million of dividends from Dollar General Corporation (NYSE: DG), \$68.3 million from Tarkett S.A. (manufacturing sector), \$29.4 million from TDC A/S (OMX: TDC), \$26.2 million from Legrand Holdings S.A. (ENXTPA: LR) and an aggregate of \$18.8 million of dividends from other investments. During the year ended December 31, 2010, we received \$931.1 million of dividends from HCA, Inc., \$273.8 million from Visant Inc. (media sector), \$34.4 million from Legrand Holdings S.A. and an aggregate of \$11.0 million of dividends from other investments. These types of dividends from portfolio companies may occur in the future; however, their size and frequency are variable.

*Interest Income*

Interest income was \$321.9 million for the year ended December 31, 2011, an increase of \$95.1 million, compared to \$226.8 million for the year ended December 31, 2010. The increase primarily reflects the increase in the level of fixed income instruments in our public markets investment vehicles.

*Interest Expense*

Interest expense was \$72.8 million for the year ended December 31, 2011, an increase of \$19.7 million, compared to \$53.1 million for the year ended December 31, 2010. The increase was primarily due to higher average borrowing costs for the year ended December 31, 2011 driven by the issuance of the Senior Notes, as defined later in this report, in late September 2010.

Table of Contents

*Income (Loss) Before Taxes*

Due to the factors described above, principally decreased gains from investment activities, income before taxes was \$1.0 billion for the year ended December 31, 2011, a decrease of \$6.9 billion, compared to income before taxes of \$7.9 billion for the year ended December 31, 2010.

*Net Income (Loss) Attributable to Redeemable Noncontrolling Interests*

Net income attributable to redeemable noncontrolling interests was \$4.3 million for the year ended December 31, 2011, reflecting the formation of certain investment vehicles that allow for redemptions by limited partners.

*Net Income (Loss) Attributable to Noncontrolling Interests*

Net income attributable to noncontrolling interests was \$0.9 billion for the year ended December 31, 2011, a decrease of \$6.5 billion, compared to \$7.4 billion for the year ended December 31, 2010. The decrease was primarily driven by the overall changes in the components of net gains (losses) from investment activities described above.

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

*Fees*

Fees were \$435.4 million for the year ended December 31, 2010, an increase of \$104.1 million, compared to fees of \$331.3 million for the year ended December 31, 2009. The increase was primarily due to an increase in fees relating to underwriting, syndication, and other capital markets services of \$71.2 million driven by an increase in the number of capital markets transactions during the period. In addition, there was a \$57.4 million increase in gross transaction fees received from transaction fee-generating investments, reflecting an increase in the number of transaction fee-generating investments during the period. During 2010 there were 13 transaction fee-generating investments with a total combined transaction value of approximately \$9.9 billion. During 2009 there were eight transaction fee-generating investments with a total combined transaction value of approximately \$4.6 billion. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular negotiations as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. Incentive fees from KFN increased \$34.4 million as a result of KFN's financial performance exceeding certain required benchmarks for each of the four quarters during the year ended December 31, 2010. KFN only earned an incentive fee in one quarter during the year ended December 31, 2009. Partially offsetting these increases was a decrease in monitoring fees of \$55.2 million, primarily due to \$72.2 million in fees received during the year ended December 31, 2009 relating to the termination of monitoring agreements in connection with the IPOs of two portfolio companies, Dollar General Corporation and Avago Technologies Limited (NYSE: AVGO) and partially offset by a \$16.1 million increase in reimbursable expenses. These types of termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with initial public offering activity in our private equity portfolio. During the year ended December 31, 2010, we had 33 portfolio companies that were paying an average monitoring fee of \$2.6 million compared with 30 portfolio companies that were paying an average monitoring fee of \$2.9 million during the year ended December 31, 2009, excluding the impact of termination payments received in 2009.

*Expenses*

Expenses were \$1.8 billion for the year ended December 31, 2010, an increase of \$0.6 billion, compared to expenses of \$1.2 billion for the year ended December 31, 2009. The increase was primarily due to an increase in non-cash equity based charges of \$261.8 million associated with the issuance of

Table of Contents

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

*Net Gains (Losses) from Investment Activities*

Net gains from investment activities were \$7.8 billion for the year ended December 31, 2010, an increase of \$0.3 billion, compared to net gains from investment activities of \$7.5 billion for the year ended December 31, 2009. The following is a summary of net gains (losses) from investment activities:

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

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

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

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

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

Table of Contents

*Dividend Income*

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

*Interest Income*

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

*Interest Expense*

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

*Income (Loss) Before Taxes*

Due to the factors described above, income before taxes was \$7.9 billion for the year ended December 31, 2010, an increase of \$1.0 billion, compared to income before taxes of \$6.9 billion for the year ended December 31, 2009.

*Net Income (Loss) Attributable to Noncontrolling Interests*

Net income attributable to noncontrolling interests was \$7.4 billion for the year ended December 31, 2010, an increase of \$1.4 billion, compared to \$6.0 billion for the year ended December 31, 2009. The increase was primarily driven by the overall changes in the components of net gains (losses) from investment activities described above.

**Segment Analysis**

The following is a discussion of the results of our three reportable business segments for the years ended December 31, 2011, 2010 and 2009. You should read this discussion in conjunction with the information included under "Basis of Financial Presentation Segment Results" and the consolidated financial statements and related notes included elsewhere in this report.

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Table of Contents

**Private Markets Segment**

The following tables set forth information regarding the results of operations and certain key operating metrics for our Private Markets segment for the years ended December 31, 2011, 2010 and 2009.

	Year Ended December 31,		
	2011	2010	2009
	(\$ in thousands)		
<b>Fees</b>			
Management and Incentive Fees:			
Management Fees	\$ 430,400	\$ 396,227	\$ 415,207
Incentive Fees			
<b>Total Management and Incentive Fees</b>	<b>430,400</b>	<b>396,227</b>	<b>415,207</b>
Net Monitoring and Transaction Fees:			
Monitoring Fees	163,769	86,932	158,243
Transaction Fees	166,654	96,000	57,699
Fee Credits	(144,928)	(52,563)	(73,900)
<b>Net Monitoring and Transaction Fees</b>	<b>185,495</b>	<b>130,369</b>	<b>142,042</b>
<b>Total Fees</b>	<b>615,895</b>	<b>526,596</b>	<b>557,249</b>
<b>Expenses</b>			
Compensation and Benefits(a)	185,709	159,561	147,801
Occupancy and Related Charges	45,694	36,395	34,747
Other Operating Expenses	157,901	148,357	134,610
<b>Total Expenses</b>	<b>389,304</b>	<b>344,313</b>	<b>317,158</b>
<b>Fee Related Earnings</b>	<b>226,591</b>	<b>182,283</b>	<b>240,091</b>
<b>Investment Income (Loss)</b>			
Gross Carried interest	266,211	1,202,070	826,193
Less: Allocation to KKR Carry Pool	(109,361)	(453,872)	(57,971)
Less: Management Fee Refunds	(17,587)	(143,446)	(22,720)
<b>Net Carried Interest</b>	<b>139,263</b>	<b>604,752</b>	<b>745,502</b>
<b>Other Investment Income (Loss)</b>	<b>(549)</b>	<b>(1,643)</b>	<b>128,528</b>
<b>Total Investment Income (loss)</b>	<b>138,714</b>	<b>603,109</b>	<b>874,030</b>
<b>Income (Loss) Before Noncontrolling Interests in Income of Consolidated Entities</b>	<b>365,305</b>	<b>785,392</b>	<b>1,114,121</b>
<b>Income (Loss) Attributable to Noncontrolling Interests</b>	<b>2,536</b>	<b>839</b>	<b>497</b>
<b>Economic Net Income (Loss)</b>	<b>\$ 362,769</b>	<b>\$ 784,553</b>	<b>\$ 1,113,624</b>
Assets Under Management (Period End)	\$ 43,627,900	\$ 46,223,900	\$ 38,842,900
Fee Paying Assets Under Management (Period End)	\$ 37,869,700	\$ 38,186,700	\$ 36,484,400
Committed Dollars Invested	\$ 5,033,300	\$ 4,555,700	\$ 2,107,700
Uncalled Commitments (Period End)	\$ 10,070,300	\$ 12,625,900	\$ 13,728,100

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(a)

Excludes an \$8.3 million charge for non-cash equity based compensation during the year ended December 31, 2011 associated with equity awards granted under the KKR & Co. L.P. 2010 Equity Incentive Plan.

Table of Contents

*Year ended December 31, 2011 compared to year ended December 31, 2010*

*Fees*

Fees were \$615.9 million for the year ended December 31, 2011, an increase of \$89.3 million, compared to fees of \$526.6 million for the year ended December 31, 2010. The net increase was primarily due to an increase in gross monitoring fees of \$76.8 million, an increase in gross transaction fees of \$70.7 million and an increase in management fees of \$34.2 million, partially offset by an increase in fee credits of \$92.4 million. The increase in gross transaction fees was primarily the result in the increase in both the size and number of fee-generating investments completed. During 2011 there were 19 transaction fee-generating investments with a total combined transaction value of approximately \$24.9 billion compared to 13 transaction fee-generating investments with a total combined transaction value of approximately \$9.9 billion during 2010. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular negotiations as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The increase in gross monitoring fees was primarily the result of \$76.6 million of fees received from the termination of monitoring fee arrangements in connection with the IPOs or sales of three portfolio companies, HCA, Inc., The Nielsen Company B.V. and Seven Media Group, which impacted fees by \$39.7 million, net of associated fee credits. Termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with IPO or other sale activity in our private equity portfolio. Excluding the impact of termination payments, during the year ended December 31, 2011, we had 36 portfolio companies that were paying an average monitoring fee of \$2.3 million compared with 33 portfolio companies that were paying an average monitoring fee of \$2.6 million during the year ended December 31, 2010. The increase in management fees was primarily due to our China Growth Fund paying a full year of fees during 2011 as compared to only one quarter in 2010 and to a lesser extent an increase in the number of fee paying investment vehicles.

*Expenses*

Expenses were \$389.3 million for the year ended December 31, 2011, an increase of \$45.0 million, compared to expenses of \$344.3 million for the year ended December 31, 2010. The increase was primarily the result of an increase of \$26.1 million in compensation and benefits expense and an increase in occupancy and related charges of \$9.3 million, each of which is a reflection of the hiring of additional personnel and the continued expansion of this business. The remaining increases were due primarily to increases in professional fees and costs incurred in connection with the formation of new investment vehicles.

*Fee Related Earnings*

Fee related earnings in our Private Markets segment were \$226.6 million for the year ended December 31, 2011, an increase of \$44.3 million, compared to fee related earnings of \$182.3 million for the year ended December 31, 2010. The increase was due to the increase in fees, partially offset by the increase in expenses as described above.

*Investment Income (Loss)*

Investment income (loss) was \$138.7 million for the year ended December 31, 2011, a decrease of \$464.4 million, compared to investment income (loss) of \$603.1 million for the year ended December 31, 2010 driven primarily by a lower level of appreciation in our private equity funds. For the year ended December 31, 2011, investment income (loss) was comprised primarily of net carried interest of \$139.3 million.

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### Table of Contents

The following table presents the components of net carried interest for the year ended December 31, 2011 and 2010.

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(\$ in thousands)</b>	
Net Realized Gains (Losses)	\$ 486,382	\$ 420,574
Net Unrealized Gains (Losses)	(242,104)	593,971
Dividends and Interest	21,933	187,525
Gross carried interest	266,211	1,202,070
Less: Allocation to KKR carry pool	(109,361)	(453,872)
Less: Management fee refunds	(17,587)	(143,446)
Net carried interest	\$ 139,263	\$ 604,752

Net realized gains (losses) for the year ended December 31, 2011 consist primarily of realized gains from the partial sales of Dollar General Corporation, Avago Technologies Limited, Legrand Holdings S.A. and Hilcorp Resources, LLC (energy sector). These gains were partially offset by the write-off of our investment in Capmark Financial Group, Inc. (financial services sector).

Net realized gains (losses) for the year ended December 31, 2010 consist primarily of the sales of East Resources Inc. (energy sector), and partial sales of Dollar General Corporation, Legrand Holdings S.A. and Avago Technologies Limited.

The following table presents net unrealized gains (losses) of carried interest by fund for the years ended December 31, 2011 and 2010.

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(\$ in thousands)</b>	
Asian Fund	\$ 65,763	\$ 170,526
Co-Investment Vehicles	35,648	40,926
China Growth	12,388	
E2 Investors	536	968
European Fund III	(9,378)	21,768
Millennium Fund	(37,456)	73,098
2006 Fund	(120,395)	216,594
European Fund	(189,210)	70,091
Total(a)	\$ (242,104)	\$ 593,971

(a)

The above table excludes any funds for which there were no unrealized gains (losses) of carried interest during either of the periods presented. For the years ended December 31, 2011 and 2010, the European II Fund was excluded.

For the year ended December 31, 2011, the net unrealized losses of \$242.1 million included \$419.4 million of reversals of previously recognized net unrealized gains and losses in the connection with the occurrence of realization events such as partial sales or write-offs which were partially offset by \$177.3 million of net unrealized gains reflecting net increases in the value of various portfolio companies. The reversals of previously recognized net unrealized gains and losses resulted primarily from the partial sales of Avago Technologies Limited, Dollar General Corporation, Legrand Holdings S.A. and Hilcorp Resources, LLC, which were partially offset by the write-off of Capmark Financial Group, Inc. Of the \$177.3 million of net increases in value, 80.3% was attributable to



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### Table of Contents

increased share prices of various publicly held investments, the most significant of which were gains on Dollar General Corporation, The Nielsen Company B.V., and Jazz Pharmaceuticals, Inc. (NYSE: JAZZ). These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were losses on HCA, Inc., Sealy Corporation (NYSE: ZZ) and Ma Anshan Modern Farming Co. (HK:1117). Our private portfolio contributed the remainder of the change in value, the most significant of which were gains relating to Oriental Brewery (consumer sector) and Intelligence Ltd. (service sector). The increased valuations, in the aggregate, generally related to individual company performance. The unrealized gains on our private portfolio were partially offset by unrealized losses on Biomet, Inc. (healthcare sector) and Energy Future Holdings Corp. (energy sector) reflecting decreased valuations, in the aggregate, generally related to declines in market comparables due to overall declines in equity markets or, in certain cases, an unfavorable business outlook.

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

Dividend and interest income for the year ended December 31, 2011 consists primarily of dividends earned from Dollar General Corporation. Dividend and interest income for the year ended December 31, 2010 consists primarily of dividends earned from HCA Inc. and Visant Inc. Management fee refunds amounted to \$17.6 million for the year ended December 31, 2011, a decrease of \$125.9 million from the year ended December 31, 2010. The lower management fee refund figure primarily reflects the 2006 Fund becoming carry-earning in 2010, as well as a benefit in the current year due to certain funds declining in value which triggered the reversal of management fee refunds related to management fees earned in the prior year.

### *Economic Net Income*

Economic net income in our Private Markets segment was \$362.8 million for the year ended December 31, 2011, a decrease of \$421.8 million, compared to economic net income of \$784.6 million for the year ended December 31, 2010. The decrease in investment income described above was the primary contributor to the period over period decrease in economic net income.

### *Assets Under Management*

The following table reflects the changes in our Private Markets AUM from December 31, 2010 to December 31, 2011:

	(\$ in thousands)
December 31, 2010 AUM	\$ 46,223,900
New Capital Raised	2,347,100
Distributions	(6,463,100)
Foreign Exchange	(57,100)
Change in Value	1,577,100
December 31, 2011 AUM	\$ 43,627,900

AUM for the Private Markets segment was \$43.6 billion at December 31, 2011, a decrease of \$2.6 billion, compared to \$46.2 billion at December 31, 2010. The decrease was primarily attributable to

Table of Contents

distributions from our funds totaling \$6.5 billion which was comprised of \$4.3 billion of realized gains and \$2.2 billion of return of original cost. This decrease was partially offset by \$2.3 billion in new capital raised relating primarily to our natural resources strategy and our infrastructure strategy as well as net unrealized gains from changes in the market value of our private equity portfolio of \$1.6 billion.

The net unrealized investment gains in our private equity funds were driven primarily by net unrealized gains of \$0.9 billion and \$0.4 billion in our 2006 Fund and Asian Fund, respectively. Approximately 78% of the net change in value for the year ended December 31, 2011 was attributable to changes in share prices of various publicly-listed investments, most notably increases in Dollar General Corporation, The Nielsen Company B.V. and Jazz Pharmaceuticals, Inc., partially offset by decreases in Legrand Holdings S.A., Sealy Corporation and Ma Anshan Modern Farming Co. Our private portfolio contributed the remainder of the change in value, with the largest contributor being unrealized gains relating to Oriental Brewery and U.N RO-RO Isletmeleri A.S. (transportation sector). These unrealized gains were partially offset by unrealized losses relating to Biomet, Inc. and Energy Future Holdings Corp. The increased valuations, in the aggregate, generally related to individual company performance, while the decreased valuations, in the aggregate, generally related to declines in market comparables due to overall declines in equity markets or, in certain cases, an unfavorable business outlook.

*Fee Paying Assets Under Management*

The following table reflects the changes in our Private Markets FPAUM from December 31, 2010 to December 31, 2011:

	(\$ in thousands)
December 31, 2010 FPAUM	\$ 38,186,700
New Capital Raised	2,197,400
Distributions	(2,276,500)
Foreign Exchange	(222,900)
Change in Value	(15,000)
December 31, 2011 FPAUM	\$ 37,869,700

FPAUM in our Private Markets segment was \$37.9 billion at December 31, 2011, a decrease of \$0.3 billion, compared to \$38.2 billion at December 31, 2010. The decrease was primarily attributable to distributions from our funds totaling \$2.3 billion and to foreign exchange adjustments on foreign denominated commitments to our funds of \$0.2 billion. The decrease was partially offset by \$2.2 billion in new capital raised relating primarily to our natural resources strategy and our infrastructure strategy.

*Committed Dollars Invested*

Committed dollars invested were \$5.0 billion for the year ended December 31, 2011, an increase of \$0.4 billion, compared to committed dollars invested of \$4.6 billion for the year ended December 31, 2010, due to an increase in the number and size of private equity investments closed during the 2011 as compared with 2010.

*Uncalled Commitments*

As of December 31, 2011, our Private Markets Segment had \$10.1 billion of remaining uncalled capital commitments that could be called for investments in new transactions, including \$1.8 billion of uncalled capital commitments from our 2006 Fund. As of February 23, 2012, the 2006 Fund has committed capital to approximately \$0.4 billion of pending transactions. There can be no assurance that

Table of Contents

any of these transactions will close. As of February 7, 2012, we have formally accepted subscriptions for over \$5.5 billion in capital commitments on our North America Fund XI.

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

*Fees*

Fees were \$526.6 million for the year ended December 31, 2010, a decrease of \$30.7 million, compared to fees of \$557.3 million for the year ended December 31, 2009. The decrease was primarily due to a \$71.3 million decrease in gross monitoring fees. This decrease was primarily due to the absence in 2010 of \$72.2 million in fees received during the year ended December 31, 2009 relating to the termination of monitoring agreements in connection with the IPOs of two portfolio companies, Dollar General Corporation and Avago Technologies Limited. Excluding the impact of termination payments, during the year ended December 31, 2010, we had 33 portfolio companies that were paying an average monitoring fee of \$2.6 million compared with 30 portfolio companies that were paying an average monitoring fee of \$2.9 million during the year ended December 31, 2009. These types of termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with initial public offering activity in our private equity portfolio. In addition, management fees decreased \$19.0 million resulting primarily from the net impact of the following: (i) a \$28.2 million decrease in management fees as fees which were previously earned from KPE have been eliminated as a result of the Transactions on October 1, 2009; (ii) a decrease of \$10.9 million primarily relating to fee paying capital that was transferred from a fee paying private equity fund (European Fund III) to a non-fee paying private equity fund (E2 Investors) subsequent to September 30, 2009; (iii) a \$5.4 million net decrease due primarily to a reduction in fee paying capital at our private equity funds in connection with realization activity offset by new fee paying capital raised; and (iv) an increase of \$25.5 million associated with a reduction in waived management fees during 2010. The net decrease in fees was partially offset by (i) an increase in gross transaction fees of \$38.3 million primarily reflecting an increase in the number of transaction fee-generating investments during the period and (ii) a \$21.3 million decrease in credits earned by limited partners under fee sharing arrangements in our private equity funds due primarily to the decline in gross transaction and monitoring fees. During 2010 there were 13 transaction fee-generating investments with a total combined transaction value of approximately \$9.9 billion as compared to eight transaction fee-generating investments with a total combined transaction value of approximately \$4.6 billion in 2009. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular negotiations as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction.

*Expenses*

Expenses were \$344.3 million for the year ended December 31, 2010, an increase of \$27.2 million, compared to expenses of \$317.2 million for the year ended December 31, 2009. The increase was primarily due to an increase in other operating expenses of \$13.7 million primarily reflecting an increase in transaction related expenses of \$10.1 million attributable to unconsummated transactions during the period. In addition, employee compensation and benefits expense increased \$11.8 million reflecting the hiring of additional personnel and the continued expansion of our business.

*Fee Related Earnings*

Fee related earnings in our Private Markets segment were \$182.3 million for the year ended December 31, 2010, a decrease of \$57.8 million, compared to fee related earnings of \$240.1 million for the year ended December 31, 2009. The decrease was due to the decline in fees and increase in expenses described above.

Table of Contents*Investment Income (Loss)*

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

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

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

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

(a) The above table excludes any funds for which there were no unrealized gains (losses) of carried interest during either of the periods presented. In addition, subsequent to the Transactions, the 1996 Fund was no longer included in our results and therefore no

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### Table of Contents

unrealized gains (losses) of carried interest attributable to the 1996 Fund are included for the year ended December 31, 2010 or the three months ended December 31, 2009.

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

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

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

#### *Economic Net Income (Loss)*

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

#### *Assets Under Management*

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

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

Table of Contents

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

*Fee Paying Assets Under Management*

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

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

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

*Committed Dollars Invested*

Committed dollars invested were \$4.6 billion for the year ended December 31, 2010, an increase of \$2.5 billion, compared to committed dollars invested of \$2.1 billion for the year ended December 31, 2009.

*Uncalled Commitments*

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

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Table of Contents

**Public Markets Segment**

The following tables set forth information regarding the results of operations and certain key operating metrics for our Public Markets segment for the years ended December 31, 2011, 2010 and 2009.

	Year Ended December 31,		
	2011	2010	2009
	(\$ in thousands)		
<b>Fees</b>			
Management and Incentive Fees:			
Management Fees	\$ 84,984	\$ 57,059	\$ 50,754
Incentive Fees	34,243	38,832	4,472
<b>Management and Incentive Fees</b>	<b>119,227</b>	<b>95,891</b>	<b>55,226</b>
Net Transaction Fees:			
Transaction Fees	11,996	19,117	
Fee Credits	(5,930)	(12,336)	
<b>Net Transaction Fees</b>	<b>6,066</b>	<b>6,781</b>	
<b>Total Fees</b>	<b>125,293</b>	<b>102,672</b>	<b>55,226</b>
<b>Expenses</b>			
Compensation and Benefits(a)	46,133	29,910	24,086
Occupancy and Related Charges	4,059	2,375	2,483
Other Operating Expenses	15,483	13,430	18,103
<b>Total Expenses</b>	<b>65,675</b>	<b>45,715</b>	<b>44,672</b>
<b>Fee Related Earnings</b>	<b>59,618</b>	<b>56,957</b>	<b>10,554</b>
<b>Investment Income (Loss)</b>			
Gross Carried Interest	(2,590)	5,000	
Less: Allocation to KKR Carry Pool	1,036	(2,000)	
Net Carried Interest	(1,554)	3,000	
Other Investment Income (Loss)	505	718	(5,260)
<b>Total Investment Income (Loss)</b>	<b>(1,049)</b>	<b>3,718</b>	<b>(5,260)</b>
<b>Income (Loss) Before Noncontrolling Interests in Income of Consolidated Entities</b>	<b>58,569</b>	<b>60,675</b>	<b>5,294</b>
Income (Loss) Attributable to Noncontrolling Interests	599	537	15
<b>Economic Net Income (Loss)</b>	<b>\$ 57,970</b>	<b>\$ 60,138</b>	<b>\$ 5,279</b>
Assets Under Management (Period End)	\$ 15,380,700	\$ 14,773,600	\$ 13,361,300
Fee Paying Assets Under Management (Period End)	\$ 8,527,600	\$ 7,824,400	\$ 6,295,400
Committed Dollars Invested	\$ 980,700	\$ 697,600	\$
Uncalled Commitments (Period End)	\$ 1,330,200	\$ 1,448,800	\$ 816,327

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- (a) Excludes an \$8.0 million charge for non-cash equity based compensation during the year ended December 31, 2011 associated with equity awards granted under the KKR & Co. L.P. 2010 Equity Incentive Plan.



Table of Contents*Year ended December 31, 2011 compared to year ended December 31, 2010**Fees*

Fees were \$125.3 million for the year ended December 31, 2011, an increase of \$22.6 million, compared to \$102.7 million for the year ended December 31, 2010. The increase is primarily due to an increase in management fees of \$27.9 million reflecting an increase in fee-paying assets under management partially offset by a decrease in incentive fees due to a decline in the financial performance of KFN when compared to the prior year.

*Expenses*

Expenses were \$65.7 million for the year ended December 31, 2011, an increase of \$20.0 million, compared to \$45.7 million for the year ended December 31, 2010. The increase was primarily due to an increase in compensation and benefits expense of \$16.2 million primarily attributable to an increase in personnel to support growth in our Public Markets segment, including our equity strategies platform.

*Fee Related Earnings*

Fee related earnings were \$59.6 million for the year ended December 31, 2011, an increase of \$2.6 million, compared to \$57.0 million for the year ended December 31, 2010. The increase in fee related earnings is primarily due to the increase in fee income, partially offset by the increase in expenses, as described above.

*Investment Income (Loss)*

Investment loss was of \$1.0 million for the year ended December 31, 2011, as compared to investment income of \$3.7 million for the year ended December 31, 2010. The decrease was primarily driven by the reversal of previously recognized net carried interests.

*Economic Net Income*

Economic net income was \$58.0 million for the year ended December 31, 2011, a decrease of \$2.1 million, compared to economic net income of \$60.1 million for the year ended December 31, 2010. The decrease in carried interest described above was the main contributor to the period over period decrease in economic net income.

*Assets Under Management*

The following table reflects the changes in our Public Markets AUM from December 31, 2010 to December 31, 2011:

	(\$ in thousands)
December 31, 2010 AUM	\$ 14,773,600
New Capital Raised	1,559,100
Distributions	(633,900)
Redemptions	(801,100)
Change in Value	483,000
December 31, 2011 AUM	\$ 15,380,700

AUM in our Public Markets totaled \$15.4 billion at December 31, 2011, an increase of \$0.6 billion, compared to \$14.8 billion at December 31, 2010. The increase for the period was due to \$1.6 billion of new capital raised and a \$0.5 billion increase in the net asset value of certain investment vehicles, which was largely offset by \$0.8 billion of redemptions in our liquid credit separately managed accounts and \$0.6 billion of distributions from our other funds and vehicles.

Table of Contents*Fee Paying Assets Under Management*

The following table reflects the changes in our Public Markets FPAUM from December 31, 2010 to December 31, 2011:

	(\$ in thousands)
December 31, 2010 FPAUM	\$ 7,824,400
New Capital Raised	1,346,300
Distributions	(269,500)
Redemptions	(801,100)
Change in Value	427,500
December 31, 2011 FPAUM	\$ 8,527,600

FPAUM in our Public Markets segment was \$8.5 billion at December 31, 2011, an increase of \$0.7 billion, from \$7.8 billion at December 31, 2010. The increase for the period was due to \$1.3 billion of new capital raised, and a \$0.4 billion increase in the net asset value of certain investment vehicles, which were largely offset by \$0.8 billion of redemptions in our liquid credit separately managed accounts and \$0.3 billion of distributions from our other funds and vehicles.

*Committed Dollars Invested*

Committed dollars invested were \$980.7 million for the year ended December 31, 2011, an increase of \$283.1 million, compared to committed dollars invested of \$697.6 million for the year ended December 31, 2010 reflecting more completed transactions during the current period.

*Uncalled Commitments*

As of December 31, 2011, our Public Markets segment had \$1.3 billion of uncalled commitments that could be called for investments in new transactions.

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

Our Public Markets segment earned fees of \$102.7 million for the year ended December 31, 2010, an increase of \$47.5 million, compared to fees of \$55.2 million for the year ended December 31, 2009. The increase is primarily the result of an increase in incentive fee income from KFN of \$34.3 million, from \$4.5 million for the year ended December 31, 2009 to \$38.8 million for the year ended December 31, 2010. The increase in incentive fee income is a result of KFN's financial performance exceeding the required benchmark. The increase in fees is also attributable to increased fee paying assets under management associated with new capital raised (see "Fee Paying Assets Under Management" table below) and \$6.8 million of net transaction fees earned during the year ended December 31, 2010. No transaction fees were earned during the year ending December 31, 2009. These increases in fees were partially offset by an \$11.7 million decrease in management fees from structured finance vehicles. In 2009, we elected to temporarily receive management fees from structured finance vehicles in lieu of being reimbursed \$13.0 million of expenses by KFN and the Strategic Capital Funds. We ceased electing to receive management fees in lieu of the expense reimbursement in the first quarter of 2010 and, as a result, received only \$1.3 million of such fees in 2010.

*Expenses*

Expenses in our Public Markets segment were \$45.7 million for the year ended December 31, 2010, an increase of \$1.0 million, compared to expenses of \$44.7 million for the year ended December 31, 2009. The increase was primarily due to an increase in employee compensation and benefits expense of \$5.8 million reflecting the hiring of additional personnel and the continued growth of this segment. Partially offsetting the increase in employee compensation and benefits was a decrease

Table of Contents

in other operating expenses of \$4.6 million which was primarily attributable to an \$11.7 million decrease in waived expense reimbursements. We waived \$13.0 million of expense reimbursements during 2009 from KFN and the Strategic Capital Funds, versus only \$1.3 million in 2010, as noted above. This decrease in other operating expenses was partially offset by increased general and administrative expenses resulting from the expansion of our business.

*Fee Related Earnings*

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

*Investment Income (Loss)*

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

*Economic Net Income*

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

*Assets Under Management*

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

	(\$ in thousands)
December 31, 2009 AUM	\$ 13,361,300
New Capital Raised	1,970,100
Distributions	(49,200)
Redemptions	(1,232,500)
Change in Value	723,900
December 31, 2010 AUM	\$ 14,773,600

AUM in our Public Markets segment totaled \$14.8 billion at December 31, 2010, an increase of \$1.4 billion, compared to \$13.4 billion at December 31, 2009. The increase was driven by \$2.0 billion of new capital raised across our various Public Markets strategies, as well as a \$0.7 billion increase in the net asset value of KFN and certain other fixed income vehicles. These increases were partially offset by \$1.2 billion of redemptions in our liquid credit separately managed accounts.

Table of Contents

*Fee Paying Assets Under Management*

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

	(\$ in thousands)
December 31, 2009 FPAUM	\$ 6,295,400
New Capital Raised	1,893,000
Distributions	(49,200)
Redemptions	(1,232,500)
Change in Value	917,700
 December 31, 2010 FPAUM	 \$ 7,824,400

FPAUM in our Public Markets segment totaled \$7.8 billion at December 31, 2010, an increase of \$1.5 billion, compared to \$6.3 billion at December 31, 2009. The increase was driven by \$1.9 billion of new capital raised across our various Public Markets strategies, as well as a \$0.9 billion increase in the net asset value of KFN and certain other fixed income vehicles. These increases were partially offset by \$1.2 billion of redemptions in our liquid credit separately managed accounts.

*Committed Dollars Invested*

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

*Uncalled Commitments*

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

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Table of Contents

**Capital Markets and Principal Activities Segment**

The following table sets forth information regarding the results of operations and certain key operating metrics for our Capital Markets and Principal Activities segment for the years ended December 31, 2011, 2010 and 2009.

	Year Ended December 31,		
	2011	2010	2009
	(\$ in thousands)		
<b>Fees</b>			
Management and Incentive Fees:			
Management Fees	\$	\$	\$
Incentive Fees			
<b>Management and Incentive Fees</b>			
Monitoring and Transaction Fees:			
Monitoring Fees			
Transaction Fees	170,480	105,266	34,129
Fee Credits			
Net Monitoring and Transaction Fees	170,480	105,266	34,129
<b>Total Fees</b>	<b>170,480</b>	<b>105,266</b>	<b>34,129</b>
<b>Expenses</b>			
Compensation and Benefits(a)	26,109	16,863	9,455
Occupancy and Related Charges	1,256	945	783
Other Operating Expenses	12,171	8,376	5,238
<b>Total Expenses</b>	<b>39,536</b>	<b>26,184</b>	<b>15,476</b>
<b>Fee Related Earnings</b>	<b>130,944</b>	<b>79,082</b>	<b>18,653</b>
Investment Income (Loss)			
Gross Carried Interest			
Less: Allocation to KKR Carry Pool			
<b>Net Carried Interest</b>			
Other Investment Income (Loss)	202,802	1,219,053	349,679
<b>Total Investment Income (Loss)</b>	<b>202,802</b>	<b>1,219,053</b>	<b>349,679</b>
Income (Loss) Before Noncontrolling Interests in Income of Consolidated Entities	333,746	1,298,135	368,332
Income (Loss) Attributable to Noncontrolling Interests	3,536	3,033	581
<b>Economic Net Income (Loss)</b>	<b>\$ 330,210</b>	<b>\$ 1,295,102</b>	<b>\$ 367,751</b>

(a) Excludes a \$0.4 million charge for non-cash equity based compensation during the year ended December 31, 2011 associated with equity awards granted under the KKR & Co. L.P. 2010 Equity Incentive Plan.

*Year ended December 31, 2011 compared to year ended December 31, 2010*

*Fees*

Fees in our Capital Markets and Principal Activities segment were \$170.5 million for the year ended December 31, 2011, an increase of \$65.2 million, compared to fees of \$105.3 million for the year ended December 31, 2010. The increase was primarily due to an increase in the size and number of various equity and debt transactions during the period. Overall, we completed 72 capital markets transactions for the year ended December 31, 2011 of which 15 represented equity offerings and 57 represented debt offerings, as compared to 50 transactions for the year ended December 31, 2010 of

Table of Contents

which 14 represented equity offerings and 36 represented debt offerings. The fees were earned in connection with underwriting, syndication and other capital markets services. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting or syndicating equity offerings than with respect to debt offerings, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes. Our capital markets business is dependent on the overall capital markets environment, which is influenced by equity prices, credit spreads and volatility.

*Expenses*

Expenses in our Capital Markets and Principal Activities segment were \$39.5 million for the year ended December 31, 2011, an increase of \$13.3 million, compared to expenses of \$26.2 million for the year ended December 31, 2010. The increase was primarily due to a \$9.2 million increase in Compensation and Benefits expense and a \$4.1 million increase in occupancy and other operating expenses relating primarily to increased headcount and the overall expansion of the capital markets business.

*Fee Related Earnings*

Fee related earnings in our Capital Markets and Principal Activities segment were \$130.9 million for the year ended December 31, 2011, an increase of \$51.8 million, compared to fee related earnings of \$79.1 million for the year ended December 31, 2010. The increase was due to the increase in fees, partially offset by the increase in expenses as described above.

*Investment Income (Loss)*

Investment income was \$202.8 million for the year ended December 31, 2011 a decrease of \$1.0 billion, compared to investment income of \$1.2 billion for the year ended December 31, 2010 driven primarily by a lower level of appreciation of our balance sheet investments.

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(\$ in thousands)</b>	
Net Realized Gains (Losses)	\$ 151,666	\$ 26,241
Net Unrealized Gains (Losses)	16,514	966,869
Dividend Income	30,767	226,616
Interest Income	46,556	25,746
Interest Expense	(42,701)	(26,419)
Other Investment Income (Loss)	\$ 202,802	\$ 1,219,053

Table of Contents

For the year ended December 31, 2011, net realized gains were comprised of \$345.1 million of realized gains from the sale of certain private equity investments, the most significant of which were Dollar General Corporation, HCA, Inc., Avago Technologies Limited, and Hilcorp Resources, LLC, partially offset by \$193.4 million of realized losses primarily from the completion of the bankruptcy of Capmark Financial Group, Inc. The net unrealized gains were comprised of unrealized gains relating to the reversals of previously recognized unrealized losses related primarily to the completion of the bankruptcy of Capmark Financial Group, Inc. and net unrealized gains reflecting increases in the value of various private equity investments, most notably Dollar General Corporation and The Nielsen Company. These net unrealized gains were offset by the reversals of previously recognized unrealized gains in connection with partial sales of private equity investments, most notably HCA, Inc. and Dollar General Corporation.

For the year ended December 31, 2010, net realized gains were comprised of \$150.3 million of gains from the sale of certain private equity investments, the most significant of which was the partial sale of Dollar General Corporation, and \$124.1 million of losses from the sale of non-private equity investments, which related primarily to the write-off of our investment in Aero Technical Support & Services S.a.r.L (industrial sector). The net unrealized gains were comprised of \$821.8 million of net unrealized appreciation of private equity investments, the most significant of which were Dollar General Corporation and NXP Semiconductors NV. Dividend income of \$226.6 million in 2010 primarily consisted of dividends earned from HCA Inc.

*Economic Net Income (Loss)*

Economic net income in our Capital Markets and Principal Activities segment was \$330.2 million for the year ended December 31, 2011, a decrease of \$1.0 billion, compared to economic net income of \$1.3 billion for the year ended December 31, 2010. The decrease in investment income described above was the primary contributor to the period over period decrease in economic net income.

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

*Fees*

Fees in our Capital Markets and Principal Activities segment were \$105.3 million for the year ended December 31, 2010, an increase of \$71.2 million, compared to \$34.1 million for the year ended December 31, 2009. Overall, we completed 50 transactions for the year ended December 31, 2010 of which 14 represented equity offerings and 36 represented debt offerings, as compared to 11 transactions for the year ended December 31, 2009 of which 2 represented equity offerings and 9 represented debt offerings. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting the offerings of equity securities than with respect to the issuance of debt securities, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes. Our capital markets business is dependent on the overall capital markets environment, which is influenced by equity prices, credit spreads and volatility.

*Expenses*

Expenses were \$26.2 million for the year ended December 31, 2010, an increase of \$10.7 million, compared to \$15.5 million for the year ended December 31, 2009. The increase was primarily due to a \$7.4 million increase in employee compensation and benefits expense relating primarily to increased headcount in connection with the expansion of our business as well as to an increase in incentive compensation resulting from the improved overall financial performance of our capital markets business.



Table of Contents*Fee Related Earnings*

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

*Investment Income (Loss)*

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

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

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

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

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

*Economic Net Income (Loss)*

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

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Table of Contents

**Segment Book Value**

The following table presents our segment statement of financial condition as December 31, 2011:

	As of December 31, 2011			
	Private Markets Segment	Public Markets Segment	Capital Markets and Principal Activities Segment	Total Reportable Segments
Cash and short-term investments	\$ 296,717	\$ 8,087	\$ 684,637	\$ 989,441
Investments			4,743,406	4,743,406
Unrealized carry	419,523	1,447		420,970
Other assets	139,432	58,360	63,799	261,591
<b>Total assets</b>	<b>\$ 855,672</b>	<b>\$ 67,894</b>	<b>\$ 5,491,842</b>	<b>\$ 6,415,408</b>
Debt obligations	\$	\$	\$ 500,000	\$ 500,000
Other liabilities	128,590	8,153	49,329	186,072
Total liabilities	\$ 128,590	\$ 8,153	\$ 549,329	\$ 686,072
Noncontrolling interests	(1,358)	729	19,381	18,752
<b>Book value</b>	<b>\$ 728,440</b>	<b>\$ 59,012</b>	<b>\$ 4,923,132</b>	<b>\$ 5,710,584</b>
<b>Book value per adjusted unit</b>	<b>\$ 1.06</b>	<b>\$ 0.09</b>	<b>\$ 7.14</b>	<b>\$ 8.29</b>

The following table provides a reconciliation of KKR's GAAP Common Units Outstanding to Adjusted Units.

	Units
<b>GAAP Common Units Outstanding Basic</b>	<b>227,150,182</b>
Unvested Common Units	6,028,444
<b>GAAP Common Units Outstanding Diluted</b>	<b>233,178,626</b>
Adjustments:	
KKR Holdings Units	456,214,235
<b>Adjusted Units</b>	<b>689,392,861</b>

	As of December 31, 2011
<b>KKR &amp; Co. L.P. partners' capital</b>	<b>\$ 1,328,698</b>
Plus: Noncontrolling interests held by KKR Holdings L.P.	4,342,157
Plus: Equity impact of KKR Management Holdings Corp. and other	39,729
<b>Book value</b>	<b>5,710,584</b>
Adjusted units	689,392,861
<b>Book value per adjusted unit</b>	<b>\$ 8.29</b>

**Liquidity**

We have managed our historical liquidity and capital requirements by focusing on our cash flows before the consolidation of our funds and the effect of normal changes in short term assets and

Table of Contents

liabilities, which we anticipate will be settled for cash within one year. Our primary cash flow activities on an unconsolidated basis involve: (i) generating cash flow from operations; (ii) generating income from investment activities, including the sale of investments and other assets; (iii) funding capital commitments that we have made to our funds; (iv) funding our growth initiatives; (v) underwriting commitments within our capital markets business; (vi) distributing cash flow to our owners; and (vii) borrowings, interest payments and repayments under credit agreements, the Senior Notes and other borrowing arrangements. As of December 31, 2011, we had cash and short-term investments on a segment basis of \$989.4 million.

*Sources of Liquidity*

Our principal sources of liquidity consist of amounts received from: (i) our operating activities, including the fees earned from our funds, managed accounts, portfolio companies, capital markets transactions and other investment products; (ii) realizations on carried interest from our investment funds; (iii) realizations on and sales of principal investments; and (iv) borrowings under our credit facilities and other borrowing arrangements described below.

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

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

*Revolving Credit Agreements*

For the year ended December 31, 2011, \$50 million of borrowings were made during the year and no borrowings were outstanding as of December 31, 2011, under any of the revolving credit agreements described below. We may, however, utilize these facilities prospectively in the normal course of our operations.

On February 26, 2008, Kohlberg Kravis Roberts & Co. L.P. entered into a credit agreement with a major financial institution (the "Corporate Credit Agreement"). The Corporate Credit Agreement originally provided for revolving borrowings of up to \$1.0 billion, with a \$50.0 million sublimit for swing-line notes and a \$25.0 million sublimit for letters of credit. On February 22, 2011, the parties amended the terms of the Corporate Credit Agreement (the "Amended and Restated Corporate Credit Agreement") such that effective March 1, 2011, availability for borrowings under the credit facility was reduced from \$1.0 billion to \$700 million and the maturity was extended to March 1, 2016. In addition, the KKR Group Partnerships became co-borrowers of the facility, and KKR & Co. L.P. and the Issuer of the Senior Notes discussed below became guarantors of the Corporate Credit Agreement, together with certain general partners of our private equity funds. On June 3, 2011, the Amended and Restated Corporate Credit Agreement was amended to admit a new lender, subject to the same terms and conditions, to provide a commitment of \$50 million. This commitment increased the availability for borrowings under the credit facility to \$750 million. As of December 31, 2011, no borrowings were outstanding under the Amended and Restated Corporate Credit Agreement. During the year ended December 31, 2011, \$50.0 million was drawn and subsequently repaid.

Table of Contents

On February 27, 2008, KKR Capital Markets entered into a revolving credit agreement with a major financial institution (the "KCM Credit Agreement") for use in KKR's capital markets business. 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. Borrowings under this facility may only be used for our capital markets business. As of December 31, 2011, no borrowings were outstanding under the credit facility. For the year ended December 31, 2011, no amounts were drawn under the KCM Credit Facility.

In June 2007, KKR PEI Investments L.P., (the "KPE Investment Partnership") entered into a five-year revolving credit agreement, expiring in June 2012, with a syndicate of lenders (the "Principal Credit Agreement"). During December 2011, the KPE Investment Partnership elected to terminate the Principal Credit Agreement in advance of its scheduled June 2012 expiration date as the facility was not contemplated to be further utilized in light of anticipated borrowing needs and availability under the Corporate Credit Agreement. For the year ended December 31, 2011, no amounts were drawn under the Principal Credit Agreement.

*Senior Notes*

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

The indenture, as supplemented by a first supplemental indenture, relating to the Senior Notes includes covenants, including limitations on the Issuer's and the guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Senior Notes may declare the Senior Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the Senior Notes and any accrued and unpaid interest on the Senior Notes automatically becomes due and payable. All or a portion of the Senior Notes may be redeemed at the Issuer's option in whole or in part, at any time, and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Senior Notes. If a change of control repurchase event occurs, the Senior Notes are subject to repurchase by the Issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the Senior Notes repurchased plus any accrued and unpaid interest on the Senior Notes repurchased to, but not including, the date of repurchase.

*Liquidity Needs*

We expect that our primary liquidity needs will consist of cash required to: (i) continue to grow our business, including seeding new strategies and funding our capital commitments made to existing and future funds, co-investments and any net capital requirements of our capital markets companies; (ii) service debt obligations, as well as any contingent liabilities that may give rise to future cash payments; (iii) fund cash operating expenses; (iv) pay amounts that may become due under our tax

Table of Contents

receivable agreement with KKR Holdings as described below; (v) make cash distributions in accordance with our distribution policy; (vi) underwrite commitments within our capital markets business and (vii) acquire additional principal assets. We may also require cash to fund contingent obligations including those under clawback and net-loss sharing arrangements. See "Liquidity Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis." We believe that the sources of liquidity described above will be sufficient to fund our working capital requirements for at least the next 12 months.

*Capital Commitments*

The agreements governing our active investment funds generally require the general partners of the funds to make minimum capital commitments to the funds, which usually range from 2% to 4% of a fund's total capital commitments at final closing. In addition, we are responsible for the uncalled commitments of the KPE Investment Partnership as a partner in our private equity funds. The following table presents our uncalled commitments to our active investment funds as of December 31, 2011:

	<b>Uncalled Commitments</b>
	(\$ in thousands)
<i>Private Markets</i>	
European Fund III	\$ 266,900
2006 Fund	126,200
Asian Fund	64,300
Infrastructure Fund	36,000
E2 Investors (Annex Fund)	28,100
Natural Resources I	18,800
China Growth Fund	7,200
Other Private Markets Commitments	9,100
Total Private Markets Commitments	556,600
<i>Public Markets</i>	
Lending Partners	71,000
Mezzanine Fund	32,800
Special Situations Vehicles	4,800
Total Public Markets Commitments	108,600
Total Uncalled Commitments	\$ 665,200

As of February 7, 2012, we committed \$300 million of capital to North America Fund XI. We expect to fund commitments with cash and short-term investments, proceeds from realizations of principal assets and other sources of liquidity available to us.

*Tax Receivable Agreement*

We and certain intermediate holding companies that are taxable corporations for U.S. federal, state and local income tax purposes, may be required to acquire KKR Group Partnership Units from time to time pursuant to our exchange agreement with KKR Holdings. KKR Management Holdings L.P. made an election under Section 754 of the Internal Revenue Code that will remain in effect for each taxable year in which an exchange of KKR Group Partnership Units for common units occurs, which may result in an increase in our intermediate holding companies' share of the tax basis of the assets of the KKR Group Partnerships at the time of an exchange of KKR Group Partnership Units. Certain of these exchanges are expected to result in an increase in our intermediate holding

Table of Contents

companies' share of the tax basis of the tangible and intangible assets of the KKR Group Partnerships, primarily attributable to a portion of the goodwill inherent in our business that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization deductions for tax purposes and therefore reduce the amount of income tax our intermediate holding companies would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

We have entered into a tax receivable agreement with KKR Holdings requiring our intermediate holding companies 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 companies actually realize as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding companies actually realize as a result of increases in tax basis that arise due to future payments under the agreement. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. This payment obligation is an obligation of our intermediate holding companies and not of either KKR Group Partnership. As such, the cash distributions to common unitholders may vary from holders of KKR Group Partnership Units (held by KKR Holdings and our principals) to the extent payments are made under the tax receivable agreement to selling holders of KKR Group Partnership Units to date. As the payments reflect actual tax savings received by KKR entities, there may be a timing difference between the tax savings received by KKR entities and the cash payments to selling holders of KKR Group Partnership Units. As of December 31, 2011, approximately \$0.2 million of cash payments have been made under the tax receivable agreement.

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

*Distributions*

We intend to make quarterly cash distributions in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of our investment management business each year in excess of amounts determined by KKR to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our investment funds and to comply with applicable law and any of our debt instruments or other agreements. KKR does not intend to distribute gains on principal investments, other than certain additional distributions that KKR may determine to make. These additional distributions, if any, are generally intended to cover certain tax liabilities, as calculated by KKR. When KKR & Co. L.P. receives distributions from the KKR Group Partnerships, KKR Holdings receives its pro rata share of such distributions from the KKR Group Partnerships. For purposes of KKR's distribution policy, our distributions are expected to consist of an amount comprised of (i) FRE, (ii) carry distributions received from KKR's investment funds which have not been allocated as part of its carry pool, and (iii) any additional distributions for certain taxes as described above. This amount is expected to be reduced by (i) corporate and applicable local taxes, if any, (ii) noncontrolling interests, and (iii) amounts determined by KKR to be necessary or appropriate for the conduct of our business and other matters as discussed above.

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

Table of Contents*Other Liquidity Needs*

We may also be required to fund various underwriting commitments in our capital markets business in connection with the underwriting of loans, securities or other financial instruments. We generally expect that these commitments will be syndicated to third parties or otherwise fulfilled or terminated, although we may in some instances elect to retain a portion of the commitments for our own account.

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

In the ordinary course of business, we enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of December 31, 2011 on an unconsolidated basis.

Types of Contractual Obligations	Payments due by Period				Total
	<1 Year	1 - 3 Years	3 - 5 Years	>5 Years	
	(\$ in millions)				
Uncalled commitments to investment funds(1)	\$ 665.2	\$	\$	\$	\$ 665.2
Debt payment obligations(2)				500.0	500.0
Interest obligations on debt(3)	34.8	64.9	64.4	127.5	291.6
Lending commitments(4)	81.7				81.7
Lease obligations	40.8	81.3	77.4	150.0	349.5
Total	\$ 822.5	\$ 146.2	\$ 141.8	\$ 777.5	\$ 1,888.0

- 
- (1) These uncalled commitments represent amounts committed by us to fund a portion of the purchase price paid for each investment made by our investment funds. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See "Liquidity Liquidity Needs."
- (2) Represents Senior Notes which are presented gross of unamortized discount.
- (3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming the debt outstanding at December 31, 2011 is not repaid until its maturity. Future interest rates are assumed to be those in effect as of December 31, 2011, including both variable and fixed rates provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.
- (4) Represents obligations in our capital markets business to lend under various revolving credit facilities.

In the normal course of business, we also enter into contractual arrangements that contain a variety of representations and warranties and that include general indemnification obligations. Our maximum exposure under such arrangements is unknown due to the fact that the exposure would relate to claims that may be made against us in the future. Accordingly, no amounts have been included in our consolidated financial statements as of December 31, 2011 relating to indemnification obligations.

The partnership documents governing our private equity funds generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return amounts to the fund for distribution to investors at the end of the life of the fund. Our principals are responsible for any clawback obligation relating to carry distributions received prior to October 1, 2009 up to a maximum of \$223.6 million. Carry distributions arising subsequent to October 1, 2009 may give rise to clawback obligations that will be allocated generally to carry pool



Table of Contents

participants and the KKR Group Partnerships in accordance with the terms of the instruments governing the KKR Group Partnerships. As of December 31, 2011, assuming that all applicable private equity funds were liquidated at no value, the amount of carried interest distributed that would be subject to this clawback provision would be \$800.9 million, of which \$577.3 million would be borne by KKR and carry pool participants and \$223.6 million would be borne by our principals. Had the investments in such funds been liquidated at their December 31, 2011 fair values, the clawback obligation would have been \$82.7 million, of which \$55.9 million is recorded in due from affiliates, \$7.7 million is due from noncontrolling interest holders, \$7.6 million reduces the amount of carried interest payable to KKR's principals, and \$11.5 million is the obligation of KKR.

Our other investment vehicles, including mezzanine, infrastructure and special situations generally include clawback provisions, however, no distributions of carried interest have been made with respect to these vehicles as of December 31, 2011.

The instruments governing certain of our private equity funds may also include a "net loss sharing provision," that, if triggered, may give rise to a contingent obligation that may require the general partners to contribute capital to the fund, to fund 20% of the net losses on investments attributed to the limited partners of such fund. In connection with the "net loss sharing provisions," certain of our private equity vehicles allocate a greater share of their investment losses to us relative to the amounts contributed by us to those vehicles. In these vehicles, such losses would be required to be paid by us to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had been previously distributed. Based on the fair market values as of December 31, 2011, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the net loss sharing obligation would have been approximately \$1,006.6 million as of December 31, 2011.

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

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

In the ordinary course of business, we and our consolidated funds enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of December 31, 2011. This table differs from the table presented above which sets forth contractual commitments on an unconsolidated basis principally because this table includes the obligations of our consolidated funds.

Types of Contractual Obligations	Payments due by Period				Total
	<1 Year	1 - 3 Years	3 - 5 Years	>5 Years	
	(\$ in millions)				
Uncalled commitments to investment funds(1)	\$ 9,268.7	\$	\$	\$	\$ 9,268.7
Debt payment obligations(2)	212.2	229.3	625.0	500.0	1,566.5
Interest obligations on debt(3)	82.5	94.2	185.1	127.5	489.3
Lending commitments(4)	81.7				81.7
Lease obligations	40.8	81.3	77.4	150.0	349.5
Total	\$ 9,685.9	\$ 404.8	\$ 887.5	\$ 777.5	\$ 11,755.7

- (1) These uncalled commitments represent amounts committed by our consolidated investment funds, which include amounts committed by KKR and our fund investors, to fund the purchase price paid for each investment made by our investment funds. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However,

Table of Contents

given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See "Liquidity Liquidity Needs."

- (2) Amounts include Senior Notes, gross of unamortized discount as well as financing arrangements entered into by our consolidated funds. Certain of our consolidated fund investment vehicles have entered into financing arrangements in connection with specific investments with the objective of enhancing returns. Such financing arrangements include \$796.4 million of financing provided through total return swaps and \$270.1 million of financing provided through a term loan and revolving credit facilities. These financing arrangements have been entered into with the objective of enhancing returns and are not direct obligations of the general partners of our private equity funds or our management companies.
- (3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming the debt outstanding at December 31, 2011 is not repaid until its maturity. Future interest rates are assumed to be those in effect as of December 31, 2011, including both variable and fixed rates provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.
- (4) Represents obligations in our capital markets business to lend under various revolving credit facilities.

***Off Balance Sheet Arrangements***

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

***Consolidated Statement of Cash Flows***

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

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

Our net cash provided by (used in) operating activities was \$(0.2) billion, \$0.7 billion and \$(0.3) billion during the years ended December 31, 2011, 2010 and 2009, respectively. These amounts primarily included: (i) proceeds from sales of investments net of purchases of investments by our funds of \$(0.2) billion, \$0.3 billion and \$(1.2) billion during the years ended December 31, 2011, 2010 and 2009, respectively; (ii) net realized gains (losses) on investments of \$3.3 billion, \$2.4 billion and \$(0.3) billion during the years ended December 31, 2011, 2010 and 2009, respectively; and (iii) change in unrealized gains (losses) on investments of \$(2.3) billion, \$5.3 billion and \$7.8 billion during the years ended December 31, 2011, 2010 and 2009, respectively. Certain KKR funds are, for GAAP purposes, investment companies and reflect their investments and other financial instruments at fair value.

Table of Contents

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

Our net cash provided by (used in) investing activities was \$(47.6) million, \$(1.3) million and \$(43.0) million during the years ended December 31, 2011, 2010 and 2009, respectively. Our investing activities included the purchases of furniture, equipment and leasehold improvements of \$18.2 million, \$13.1 million and \$21.1 million, as well as a (decrease) increase in restricted cash and cash equivalents that primarily funds collateral requirements of \$29.3 million, \$(11.8) million and \$21.9 million during the years ended December 31, 2011, 2010 and 2009, respectively.

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

Our net cash (used in) provided by financing activities was \$0.4 billion, \$(0.5) billion and \$0.7 billion during the years ended December 31, 2011, 2010 and 2009, respectively. Our financing activities primarily included: (i) distributions to, net of contributions by our noncontrolling interests, of \$0.4 billion, \$0.1 billion and \$0.8 billion during the years ended December 31, 2011, 2010 and 2009, respectively; (ii) net proceeds received net of repayment of debt obligations of \$0.1 billion, \$(0.6) billion and \$(0.3) billion during the years ended December 31, 2011, 2010 and 2009, respectively; and (iii) distributions to, net of contributions by our equity holders, of \$(0.2) billion, \$(0.1) billion and \$(0.2) billion during the years ended December 31, 2011, 2010 and 2009, respectively.

**Critical Accounting Policies**

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

***Principles of Consolidation***

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

With respect to the consolidated KKR funds, we generally have operational discretion and control, and limited partners have no substantive rights to impact ongoing governance and operating activities of the fund.

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

Table of Contents

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

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

***Fair Value of Investments***

Certain KKR funds are, for GAAP purposes, investment companies and therefore are not required to consolidate their majority owned and controlled investments in portfolio companies. Rather, KKR reflects their investments in portfolio companies at fair value with unrealized gains or losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations.

We categorize and disclose our investments and other financial instruments measured and reported at fair value based on the hierarchical levels as defined within GAAP. GAAP establishes a hierarchical 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 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 assets or liabilities as of the reporting date. The type of investments and other financial instruments included in Level I include publicly-listed equities, publicly-listed derivatives, and securities sold short. KKR does not adjust the quoted price for these investments, even in situations where KKR holds a large position and a sale could reasonably affect the quoted price. We classified 29.5% of total investments measured and reported at fair value as Level I at December 31, 2011.

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 and other financial instruments which are included in this category generally include fixed income investments, convertible debt securities indexed to publicly-listed securities, fixed income securities sold short and certain over-the-counter derivatives. We classified 9.0% of total investments measured and reported at fair value as Level II at December 31, 2011.

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 and fixed income investments for which a sufficiently liquid trading market does not exist. We classified 61.5% of total investments measured and reported at fair value as Level III at December 31, 2011. The valuation of our

Table of Contents

Level III investments at December 31, 2011 represents management's best estimate of the amounts that we would anticipate realizing on the sale of these investments at such date.

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

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

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

Approximately 29.5% or \$11.1 billion, and 26.0%, or \$9.5 billion, of the value of our investments were valued using quoted market prices, which have not been adjusted, as of December 31, 2011 and December 31, 2010, respectively.

Approximately 70.5%, or \$26.4 billion, and 74.0%, or \$27.0 billion, of the value of our investments were valued in the absence of readily observable market prices as of December 31, 2011 and December 31, 2010, respectively. The majority of these investments were valued using internal models with significant unobservable market parameters and our determinations of the fair values of these investments may differ materially from the values that would have resulted if readily observable market prices had existed. Additional external factors may cause those values, and the values of investments for which readily observable market prices exist, to increase or decrease over time, which may create volatility in our earnings and the amounts of assets and partners' capital that we report from time to time.

Table of Contents

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

Changes in the fair value of the investments of our consolidated private equity funds may impact the net gains (losses) from investment activities of our private equity funds as described under " Key Financial Measures Investment Income (Loss) Net Gains (Losses) from Investment Activities." Based on the investments of our private equity funds as of December 31, 2011, we estimate that an immediate 10% decrease in the fair value of the funds' investments generally would result in a 10% immediate change in net gains (losses) from the funds' investment activities (including carried interest when applicable), regardless of whether the investment was valued using observable market prices or management estimates with significant unobservable pricing inputs. However, we estimate the impact that the consequential decrease in investment income would have on net income attributable to KKR would be significantly less than the amount described above, given that a majority of the change in fair value would be attributable to noncontrolling interests.

As of December 31, 2011, private equity investments which represented greater than 5% of the net assets of consolidated private equity investments included: (i) Dollar General Corporation valued at \$3.4 billion; (ii) Alliance Boots GmbH valued at \$2.5 billion; and (iii) HCA, Inc. valued at \$1.9 billion.

The majority of the value of the investments in our consolidated fixed income funds were valued using observable market parameters, which may include quoted market prices, as of December 31, 2011 and December 31, 2010. Quoted market prices, when used, are not adjusted.

***Revenue Recognition***

Fees consist primarily of (i) monitoring, consulting and transaction fees from providing advisory and other services, (ii) management and incentive fees from providing investment management services to unconsolidated funds, a specialty finance company, structured finance and other 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.

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 cash 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 cash management fees earned. As of December 31, 2011, the amount subject to refund for which no liability has been recorded approximates \$91.4 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 cash management fees earned, these fees would not be returned to the funds' limited partners, in accordance with the respective fund agreements.

Table of Contents

***Recognition of Investment Income***

Investment income consists primarily of the net impact of: (i) realized and unrealized gains and losses on investments, (ii) dividends, (iii) interest income, (iv) interest expense and (v) foreign exchange gains and losses relating to mark-to-market activity on foreign exchange forward contracts, foreign currency options and foreign denominated debt. 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. While this reversal generally does not significantly impact the net amounts of gains (losses) that we recognize from investment activities, it affects the manner in which we classify our gains and losses for reporting purposes.

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

***Recognition of Carried Interest in Statement of Operations***

Carried interest entitles 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 interest are included as investment income (loss) 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 and where applicable, preferred return thresholds have been met. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reversed and reflected as investment losses in net gains (losses) from investment activities. Carried interest is recognized based on the contractual formula set forth in the agreements governing the fund as if the fund was terminated at the reporting date with the then estimated fair values of the investments realized. Due to the extended durations of our private equity funds, we believe that this approach results in income recognition that best reflects our periodic performance in the management of those funds.

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

***Clawback Provision***

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

Certain KKR principals who received carried interest distributions prior to October 1, 2009 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. KKR principals are responsible

Table of Contents

for clawback obligations relating to carry distributions received prior to October 1, 2009 up to a maximum of \$223.6 million.

Carry distributions arising subsequent to October 1, 2009 are allocated generally to carry pool participants and KKR in accordance with the terms of the instruments governing the KKR Group Partnerships.

Our other investment vehicles, including mezzanine, infrastructure and special situations, generally include clawback provisions; however, no distributions of carried interest have been made with respect to these vehicles as of December 31, 2011.

***Net Loss Sharing Provision***

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

**Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ("FASB") issued amended guidance on fair value measurements to achieve common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. The amended guidance specifies that the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. The amendments include requirements specific to measuring the fair value of those instruments, such as equity interests used as consideration in a business combination. An entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds the instrument as an asset. With respect to financial instruments that are managed as part of a portfolio, an exception to fair value requirements is provided. That exception permits a reporting entity to measure the fair value of such financial assets and financial liabilities at the price that would be received to sell a net asset position for a particular risk or to transfer a net liability position for a particular risk in an orderly transaction between market participants at the measurement date. The amendments also clarify that premiums and discounts should only be applied if market participants would do so when pricing the asset or liability. Premiums and discounts related to the size of an entity's holding (e.g., a blockage factor) rather than as a characteristic of the asset or liability (e.g., a control premium) is not permitted in a fair value measurement.

The guidance also requires enhanced disclosures about fair value measurements, including, among other things, (a) for fair value measurements categorized within Level III of the fair value hierarchy, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) the valuation process used by the reporting entity, and (3) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any, and (b) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed (for example, a financial instrument that is measured at amortized cost in the statement of financial position but for which fair value is disclosed). The guidance also amends



Table of Contents

disclosure requirements for significant transfers between Level I and Level II and now requires disclosure of all transfers between Levels I and II in the fair value hierarchy.

The amended guidance is effective for interim and annual periods beginning after December 15, 2011. As the impact of the guidance is primarily limited to enhanced disclosures, adoption is not expected to have a material impact on the KKR's financial statements.

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income. The amendments provide an entity with an option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance is effective for fiscal years, and interim periods within those years beginning after December 15, 2011 and should be applied on a retrospective basis. As the amendments are limited to presentation only, adoption is not expected to have a material impact on KKR's financial statements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

***Market Risk***

Our funds hold investments that are reported at fair value. Net changes in the fair value of investments impact the net gains from investments in our combined statements of operations. Based on the investments of our funds as of December 31, 2011, we estimate that a 10% decrease in the fair value of our funds' investments would result in a corresponding reduction in investment income. However, we estimate the impact that the consequential decrease in investment income would have on our reported income attributable to Group Holdings would be significantly less than the amount presented above, given that a substantial majority of the change in fair value would be attributable to noncontrolling interests.

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

***Securities Market Risk***

Our investment funds make certain investments in portfolio companies whose securities are publicly traded. The market prices of securities may be volatile and are likely to fluctuate due to a number of factors beyond our control. These factors include actual or anticipated fluctuations in the quarterly and annual results of such companies or of other companies in the industries in which they

Table of Contents

operate, market perceptions concerning the availability of additional securities for sale, general economic, social or political developments, industry conditions, changes in government regulation, shortfalls in operating results from levels forecasted by securities analysts, the general state of the securities markets and other material events, such as significant management changes, re-financings, acquisitions and dispositions. In addition, although our private equity funds primarily hold investments in portfolio companies whose securities are not publicly traded, the value of these investments may also fluctuate due to similar factors beyond our control as described above for portfolio companies whose securities are publicly traded.

***Exchange Rate Risk***

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

Because most of the capital commitments to our funds are denominated in U.S. dollars, our primary exposure to exchange rate risk relates to movements in the value of exchange rates between the U.S. dollar and other currencies in which our investments are denominated (primarily euros, British pounds, Indian rupees and Australian dollars). We estimate that a simultaneous parallel movement by 10% in the exchange rates between the U.S. dollar and all of the major foreign currencies in which our funds' investments were denominated as of December 31, 2011 would result in net gains or losses from investment activities of our funds of \$738.7 million. However, we estimate that the effect on its income before taxes and its net income from such a change would be significantly less than the amount presented above, because a substantial majority of the gain or loss would be attributable to noncontrolling interests in our funds.

***Credit Risk***

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

***Interest Rate Risk***

We have debt obligations that include revolving credit agreements and certain investment financing arrangements structured through the use of total return swaps which effectively convert third party capital contributions into our borrowings. These debt obligations accrue interest at variable rates, and changes in these rates would affect the amount of interest payments that we would have to make, impacting future earnings and cash flows. Based on our debt obligations payable at December 31, 2011 (inclusive of debt obligations of our consolidated funds), we estimate that interest expense relating to variable rates would increase on an annual basis by \$10.7 million in the event interest rates were to increase by 100 basis points. The estimated impact on interest expense is solely on the debt obligations of our consolidated funds.

Table of Contents

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INDEX TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

<u>Report of Independent Registered Public Accounting Firm</u>	<u>132</u>
<u>Consolidated and Combined Statements of Financial Condition as of December 31, 2011 and 2010</u>	<u>134</u>
<u>Consolidated and Combined Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009</u>	<u>135</u>
<u>Consolidated and Combined Statements of Changes in Equity for the Years Ended December 31, 2011, 2010 and 2009</u>	<u>136</u>
<u>Consolidated and Combined Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009</u>	<u>138</u>
<u>Notes to Consolidated and Combined Financial Statements</u>	<u>140</u>

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Unitholders of KKR & Co. L.P.:

We have audited the accompanying consolidated and combined statements of financial condition of KKR & Co. L.P. and subsidiaries (the "Company") as of December 31, 2011 and 2010, 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, 2011. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorization of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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### Table of Contents

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

New York, New York  
February 24, 2012

Table of Contents

**KKR & CO. L.P.**

**CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL CONDITION**

**(Amounts in Thousands, Except Unit Data)**

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 843,261	\$ 738,693
Cash and Cash Equivalents Held at Consolidated Entities	930,886	695,902
Restricted Cash and Cash Equivalents	89,828	60,482