KKR & Co. L.P.
Form 10-K
February 24, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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, 2013

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	**26-0426107**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

9 West 57th 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	**Name of each exchange on which registered**
Common units representing limited partner interests	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

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 ý No o

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 ý No o

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. o

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

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

The aggregate market value of the common units of the registrant held by non-affiliates as of June 30, 2013, was approximately $5.3 billion.

As of February 18, 2014, there were 288,143,327 common units of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

KKR & CO. L.P.

FORM 10-K
For the Year Ended December 31, 2013

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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," the negative version of these words, other comparable words or other statements that do not relate strictly to historical or factual matters. Without limiting the foregoing, statements regarding the expected acquisitions of KKR Financial Holdings LLC and Avoca Capital and the associated change in our distribution policy as well as statements regarding the impact of exits of investments on netting holes and future cash carry and distributions may constitute forward-looking statements that are subject to the risk that the terms of these transactions may be modified, the transactions may not be completed at all or the benefits and anticipated synergies from such transactions are not realized. 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 those described under the section entitled "Risk Factors" in this report. These factors 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.

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

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 KKR Management Holdings L.P. and KKR Fund Holdings L.P. (together, the "KKR Group Partnerships") and their consolidated subsidiaries. Each KKR Group Partnership has an identical number of partner interests and, when held together, one Class A partner interest in each of the KKR Group Partnerships together represents one KKR Group Partnership Unit.

References to "our Managing Partner" are to KKR Management LLC, which acts as our general partner and unless otherwise indicated, references to equity interests in KKR's business, or to percentage interests in KKR's 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 KKR's business as part of our "carry pool" and certain minority interests. References to our "principals" are to our senior employees and non-employee operating consultants who hold interests in KKR's 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.

Prior to October 1, 2009, KKR's business was conducted through multiple entities for which there was no single holding entity, but were under common control of senior KKR principals, and in which senior principals and KKR's other principals and individuals held ownership interests (collectively, the "Predecessor Owners"). On October 1, 2009, we completed the acquisition of all of the assets and liabilities of KKR & Co. (Guernsey) L.P. (f/k/a KKR Private Equity Investors, L.P. or "KPE") 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. The reorganization involved a contribution of certain equity interests in KKR's business that were held by KKR's Predecessor Owners to the KKR Group Partnerships in exchange for equity interests in the KKR Group Partnerships held through KKR

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Holdings. We refer to the acquisition of the assets and liabilities of KPE and to our subsequent reorganization into a holding company structure as the "KPE Transaction."

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 unitholders as it provides additional insight into KKR's capital raising activities and the overall activity in its investment funds. 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 credit 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 any 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.

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 unitholders 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, for only those funds 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 fees less segment expenses (other than certain compensation and general and administrative expenses incurred in the generation of net realized principal investment income). This measure 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 unitholders 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 unitholders 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, management fee refunds, interest expense and certain compensation and general and administrative expenses incurred in the generation of net realized principal investment income; 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.

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In this report, "syndicated capital" is generally the aggregate amount of capital in transactions originated by KKR investment funds and carry-yielding co-investment vehicles, which has been distributed to third parties in exchange for a fee. It does not include (i) capital invested in such transactions by KKR investment funds and carry-yielding co-investment vehicles, which is instead reported in committed dollars invested and (ii) debt capital that is arranged as part of the acquisition financing of transactions originated by KKR investment funds. Syndicated capital is used as a measure of investment activity for KKR and its business segments during a given period, and we believe that this measure is useful to unitholders as it provides additional insight into levels of syndication activity in KKR's Capital Markets and Principal Activities segment and across its investment platform.

You should note that our calculations of AUM, FPAUM, FRE, ENI, syndicated capital and other financial measures may differ from the calculations of other investment managers and, as a result, our measurements of AUM, FPAUM, FRE, ENI, syndicated capital and other financial measures may not be comparable to similar measures 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 investment funds, vehicles and/or accounts advised, sponsored or managed by one or more subsidiaries of KKR, unless context requires otherwise.

Unless otherwise indicated, references in this report to our fully exchanged and diluted common units outstanding, or to our common units outstanding on a fully exchanged and 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.

PART I

ITEM 1. BUSINESS

Overview

Led by Henry Kravis and George Roberts, we are a leading global investment firm with $94.3 billion in AUM as of December 31, 2013 and a 37-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 fund 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 fund investors and provides capital markets services to our firm, our portfolio companies and third parties. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 230 private equity investments in portfolio companies with a total transaction value in excess of $485 billion. In recent years, we have grown our firm by expanding our geographical presence and building businesses in new areas, such as credit, special situations, equity strategies, hedge fund solutions, capital markets, infrastructure, energy 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 meeting the needs of our existing fund investors and in developing relationships with new investors in our funds.

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 in our funds, 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 fund investors and from other principal investments 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.

Our Firm

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

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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.

Since our inception, one of our fundamental philosophies has been to align the interests of the firm and our principals with the interests of our fund investors, portfolio companies and other stakeholders. We achieve this by putting our own capital behind our ideas. As of December 31, 2013, we and our principals have over $7.3 billion invested in or committed to our own funds and portfolio companies, including $4.2 billion funded through our balance sheet, $1.2 billion of additional commitments from our balance sheet to investment funds, $1.4 billion in personal investments and $0.5 billion of additional commitments from personal investments.

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 sponsor a group of funds and co-investment vehicles that invest capital in real assets, such as infrastructure, energy 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, 2013, the segment had $61.2 billion of AUM and our actively investing funds are geographically differentiated. As of December 31, 2013, Private Markets FPAUM was $50.2 billion, consisting of $44.6 billion in private equity and $5.6 billion of FPAUM in real assets (including infrastructure, energy and real estate). Prior to 2010, FPAUM in the Private Markets segment consisted entirely of private equity funds.

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

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

(2) As of December 31, 2013, we had $0.7 billion of unallocated commitments from a strategic partnership with a state pension plan and approximately $2.2 billion in connection with other infrastructure, energy and other private equity funds and co-investment vehicles, which are not reflected in the table above. Such commitments will not contribute to AUM until we are entitled to receive fees or a carried interest in accordance with our definition of AUM and consequently are not included in AUM as of December 31, 2013.

The table below presents information as of December 31, 2013 relating to our current private equity funds and other 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, 2013.

	Investment Period(1)		Amount						
Private Markets	Commencement Date	End Date	Commitment(2)	Uncalled Commitments	Percentage Committed by General Partner	Invested	Realized	Remaining Cost(3)	Remaining Fair Value
Private Equity Funds									
Asian Fund II	4/2013	4/2019	$ 5,825.0	$ 5,615.1	1.3%	$ 209.9	$	$ 209.9	$ 201.1
North America Fund XI	9/2012	9/2018	8,718.4	5,903.3	2.9%	2,815.1	3.9	2,815.1	3,079.3
China Growth Fund	11/2010	11/2016	1,010.0	674.5	1.0%	335.5	32.6	318.0	399.9
E2 Investors (Annex Fund)	8/2009	11/2013	209.5	13.6	4.5%	195.9		195.9	426.3
European Fund III	3/2008	3/2014	6,241.1	1,689.4	4.6%	4,551.7	653.5	4,194.4	5,660.0
Asian Fund	7/2007	4/2013	3,983.3	134.1	2.5%	3,849.2	1,693.6	2,979.1	5,128.3
2006 Fund	9/2006	9/2012	17,642.2	1,205.4	2.1%	16,436.8	11,719.7	9,770.5	15,094.9
European Fund II	11/2005	10/2008	5,750.8		2.1%	5,750.8	4,513.2	2,220.4	3,960.0
Millennium Fund	12/2002	12/2008	6,000.0		2.5%	6,000.0	10,119.1	1,837.9	3,181.2
European Fund	12/1999	12/2005	3,085.4		3.2%	3,085.4	8,720.0		51.6
Total Private Equity Funds			58,465.7	15,235.4		43,230.3	37,455.6	24,541.2	37,182.6
Co-Investment Vehicles	Various	Various	3,166.3	974.5	Various	2,191.8	2,418.8	1,583.3	2,044.3
Total Private Equity			**61,632.0**	**16,209.9**		**45,422.1**	**39,874.4**	**26,124.5**	**39,226.9**
Real Assets									
Energy Income and Growth Fund	9/2013	9/2018	1,413.5	1,269.4	17.9%	144.1	6.1	137.6	140.7
Natural Resources Fund	Various	Various	876.1	303.1	Various	573.0	73.2	519.4	327.8
Global Energy Opportunities	Various	Various	861.0	716.6	Various	144.4	0.7	144.4	132.3
Infrastructure Fund	Various	Various	1,042.4	388.6	4.8%	653.8	24.3	653.8	710.3
Infrastructure Co-Investments	Various	Various	1,356.0	251.5	Various	1,104.5	226.8	1,104.5	1,319.5
Real Estate Partners Americas	5/2013	12/2016	1,229.1	962.5	16%	266.6		266.6	368.4
Real Assets			**6,778.1**	**3,891.7**		**2,886.4**	**331.1**	**2,826.3**	**2,999.0**
Private Markets Total			**$ 68,410.1**	**$ 20,101.6**		**$ 48,308.5**	**$ 40,205.5**	**$ 28,950.8**	**$ 42,225.9**

(1) The commencement date represents the date on which the general partner of the applicable fund commenced investment of the fund's capital or the date of the first closing. 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, 2013, in the case of unfunded commitments.

(3) The remaining cost represents the initial investment of the general partner and limited partner, with the limited partner's investment reduced for any return of capital and realized gains from which the general partner did not receive a carried interest.

Performance

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 more than doubled the value of capital that we have invested in our Private Markets investment funds, turning $61.3 billion of capital into $126.5 billion of value from our inception in 1976 to December 31, 2013. The value of capital that we have invested in our Private Markets investment funds and that has been realized and partially realized has grown from $33.5 billion to $95.6 billion.

Amount Invested and Total Value for
Private Markets Investment Funds
As of December 31, 2013

Total Investments ***Realized/Partially Realized Investments***

From our inception in 1976 through December 31, 2013, our investment funds with at least 36 months of investment activity generated a cumulative gross IRR of 25.7%, compared to the 11.9% and 9.3% gross IRR achieved by the S&P 500 Index and MSCI World Index, respectively, over the same period, despite the cyclical and sometimes challenging environments in which we have operated. The S&P 500 Index and MSCI World Index are unmanaged indices and our returns assume reinvestment of distributions and do not reflect any fees or expenses. Such past performance, however, may not be representative of performance in any given period. 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 certain of our private equity funds at the time were marked down to 67% of original cost. For additional information regarding impact of market conditions on the value and performance of our investments, see "Risk Factors 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." and " 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."

The tables below present information as of December 31, 2013 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, 2013 or

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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 Commitment	Amount Invested	Fair Value of Investments Realized	Fair Value of Investments Unrealized	Total Value	Gross IRR*	Net IRR*	Multiple of Invested Capital**
	($ in Millions)							
Total Investments								
Legacy Funds(1)								
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	12,476.9		12,476.9	18.0%	13.3%	2.1
Subtotal Legacy Funds	16,474.5	16,474.5	50,269.3		50,269.3	26.1%	19.9%	3.1
Included Funds								
European Fund (1999)(2)	3,085.4	3,085.4	8,720.0	51.6	8,771.6	27.0%	20.3%	2.8
Millennium Fund (2002)	6,000.0	6,000.0	10,119.1	3,181.2	13,300.3	22.5%	16.4%	2.2
European Fund II (2005)(2)	5,750.8	5,750.8	4,513.2	3,960.0	8,473.2	6.8%	5.0%	1.5
2006 Fund (2006)	17,642.2	16,436.8	11,719.7	15,094.9	26,814.6	11.1%	8.3%	1.6
Asian Fund (2007)	3,983.3	3,849.2	1,693.6	5,128.3	6,821.9	18.9%	13.2%	1.8
European Fund III (2008)(2)	6,241.1	4,551.7	653.5	5,660.0	6,313.5	13.9%	7.8%	1.4
E2 Investors (Annex Fund) (2009)(2)	209.5	195.9		426.3	426.3	28.4%	23.8%	2.2
China Growth Fund (2010)	1,010.0	335.5	32.6	399.9	432.5	12.2%	3.4%	1.3
Natural Resources Fund (2010)	876.1	573.0	73.2	327.8	401.0	-21.8%	-21.8%	0.7
Infrastructure Fund (2011)(3)	1,042.4	653.8	24.3	710.3	734.6	N/A	N/A	N/A
North America Fund XI (2012)(3)	8,718.4	2,815.1	3.9	3,079.3	3,083.2	N/A	N/A	N/A
Asian Fund II (2013)(3)	5,825.0	209.9		201.1	201.1	N/A	N/A	N/A
Real Estate Partners Americas (2013)(3)	1,229.1	266.6		368.4	368.4	N/A	N/A	N/A
Energy Income and Growth Fund (2013)(3)	1,413.5	144.1	6.1	140.7	146.8	N/A	N/A	N/A
Subtotal Included Funds	63,026.8	44,867.8	37,559.2	38,729.8	76,289.0	15.5%	11.1%	1.7
All Funds	**$ 79,501.3**	**$ 61,342.3**	**$ 87,828.5**	**$ 38,729.8**	**$ 126,558.3**	**25.7%**	**19.0%**	**2.1**

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Private Markets Investment Funds	Amount Commitment	Amount Invested	Fair Value of Investments Realized	Fair Value of Investments Unrealized	Total Value	Gross IRR*	Net IRR*	Multiple of Invested Capital**
	($ in Millions)							
Realized/Partially Realized Investments(4)								
Legacy Funds (1)								
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	12,476.9		12,476.9	18.0%	13.3%	2.1
Subtotal Legacy Funds	16,474.5	16,474.5	50,269.3		50,269.3	26.1%	19.9%	3.1
Included Funds								
European Fund (1999) (2)	3,085.4	2,681.1	8,720.0	51.6	8,771.6	29.7%	25.9%	3.3
Millennium Fund (2002)	6,000.0	4,093.0	9,710.3	1,900.8	11,611.1	38.0%	29.4%	2.8
European Fund II (2005)(2)	5,750.8	4,072.2	4,513.2	2,956.9	7,470.1	10.8%	9.5%	1.8
2006 Fund (2006)	17,642.2	4,649.1	11,268.7	3,279.5	14,548.2	26.2%	23.7%	3.1
Asian Fund (2007)	3,983.3	795.8	1,690.1	405.5	2,095.6	26.9%	23.7%	2.6
European Fund III (2008)(2)	6,241.1	230.9	409.7		409.7	23.4%	21.9%	1.8
E2 Investors (Annex Fund) (2009)(2) (4)	209.5							
China Growth Fund (2010)	1,010.0	17.5	28.5		28.5	33.5%	33.5%	1.6
Natural Resources Fund (2010)	876.1	522.9	69.2	295.6	364.8	-21.8%	-21.8%	0.7
Infrastructure Fund (2011)(4)	1,042.4							
North America Fund XI (2012)(4)	8,718.4							
Asian Fund II (2013)(4)	5,825.0							
Real Estate Partners Americas (2013)(4)	1,229.1							
Energy Income and Growth Fund (2013)(4)	1,413.5							
Subtotal Included Funds	63,026.8	17,062.5	36,409.7	8,889.9	45,299.6	26.5%	22.3%	2.7
All Realized/Partially Realized Investments	**$ 79,501.3**	**$ 33,537.0**	**$ 86,679.0**	**$ 8,889.9**	**$ 95,568.9**	**26.1%**	**21.3%**	**2.8**

(1)

These funds were not contributed to KKR as part of the KPE Transaction.

(2) The capital commitments of the European Fund, European Fund II, European Fund III and E2 Investors (Annex Fund) include euro-denominated commitments of €196.5 million, €2,597.5 million, €2,882.8 million and €55.5 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, 2013 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, 2013. None of the Infrastructure Fund, North America Fund XI, Asian Fund II, Real Estate Partners Americas or Energy Income and Growth Fund have invested for at least 36 months as of December 31, 2013. 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 E2 Investors (Annex Fund), Infrastructure Fund, North America Fund XI, Asian Fund II, Real Estate Partners Americas or Energy Income and Growth Fund 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.

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IRRs measure 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 18 funds with approximately $74.9 billion of capital commitments through December 31, 2013. 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 investment professionals and portfolio company management teams and otherwise at our direction, as well as our senior advisors, many of whom are former chief executive officers and leaders of the business community.

Portfolio

The following chart presents information concerning the amount of capital invested by private equity funds by geography through December 31, 2013. We believe that this data illustrates the benefits of our business approach and our ability to source and invest in deals in multiple geographies.

Dollars Invested by Geography
(European Fund and Subsequent Funds
as of December 31, 2013)

Our current private equity portfolio consists of over 85 companies with more than $200 billion of annual revenues. These companies are headquartered in 19 countries and operate in 15 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.

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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. In our private equity funds, we do not effect transactions that are "hostile", meaning a target company's board of directors makes an unfavorable recommendation with respect to the transaction or publicly opposes the consummation of the transaction.

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 contact us with new investment opportunities, including a substantial number of exclusive investment opportunities and opportunities that are made available to only a 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.

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 the applicable regional 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. While the due diligence process differs depending on the type of investment we make, generally, in connection with the private equity 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 may also use the services of outside accountants, consultants, lawyers, investment banks, and industry experts as

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appropriate to assist them in this process. Investment committees monitor all due diligence practices, and the applicable investment committee must approve an investment before it may be made.

Building Successful and Competitive Businesses

Portfolio management committees are responsible for working with our investment professionals from the date on which a private equity 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. When investing in a private equity portfolio company, we partner with 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 private equity 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 seek to 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, 2013, the firm has generated approximately $87.8 billion of cash proceeds from the sale of our private equity portfolio companies in initial public offerings and secondary offerings, dividends, and sales to strategic buyers. When exiting private equity investments, our objective is to structure the exit in a manner that optimizes returns for fund 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.

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. The investment period for certain funds may be terminated upon supermajority vote (based on capital commitment) of the fund's limited partners or by the fund's advisory committee. The term of our private equity funds generally end 10 to 12 years from the date of the fund's first or last investment, subject to a limited number of extensions with the consent of the limited partners or the applicable advisory committee. Given the length of the investment periods and terms of our private equity funds and the limited conditions under which such periods can be terminated and commitments may be withdrawn, the AUM of our private equity funds provide a long-term stable capital base.

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. Our newest private equity funds, the North America Fund XI and our Asian Fund II have 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. Such performance hurdles are subject to a catch-up allocation to the general partner after the hurdle has been reached. Our earlier private equity funds do not include a performance hurdle. The timing of receipt of carried interest in respect of investments of our carry funds is dictated by the terms of the partnership agreements that govern such funds, and is distributed to the general partner of a private equity fund only after all of the following are met: (i) a realization event has occurred (e.g., sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception, in excess of performance hurdles where applicable; and (iii) with respect to investments with a fair value below cost, cost has been returned to fund investors in an amount sufficient to reduce remaining cost to the investments' fair value. For a fund that has a fair value above cost, overall, but has one or more investments where fair value is below cost, the shortfall between cost and fair value for such investments is referred to as a "netting hole." See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity Sources of Liquidity" for a discussion of netting holes. Net realized profit or loss is not netted between or among funds except for the Annex Fund as discussed below under " Other Private Equity Investment Vehicles E2 Investors (Annex Fund)". In addition, the agreements governing KKR's private equity funds generally include a "clawback" or, in certain instances, a "net loss sharing" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return or contribute amounts to the fund for distribution to fund investors at the end of the life of the fund. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Clawback Provision", "Management's Discussion and Analysis of Financial Condition Critical Accounting Policies Net Loss Sharing Provision" and "Risk Factors 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 fund investors."

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. Gross management fees for our private equity funds generally range from 1% to 2% of committed capital during the fund's investment period and is generally 0.75% of invested capital after the expiration of the fund's investment period with subsequent reductions over time, which causes the fees to be reduced 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 private equity funds generally require that management fees be returned to fund 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 for providing portfolio companies 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% to 100% 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 investment professionals focused on such funds) cease to be actively involved in the management of the fund. While these provisions do not allow investors in our funds 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.

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To the extent investors in our private equity funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, fund 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 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, but may be greater for certain funds pursuing newer strategies. 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. Prior to the KPE Transaction, these capital contributions were funded with cash from operations that otherwise would be distributed to our principals. Subsequent to the KPE Transaction, these general partner commitments are 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 fund 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. The Annex Fund reached the end of its investment period in November 2013.

Other Private Equity Products. We have offered significant co-investment opportunities to both fund investors and other third parties. We have built out our capital markets and distribution capabilities and created 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 entitles the firm to receive management fees and/or a carried interest. In addition, we manage certain separately managed accounts in the form of separate investment vehicles based on terms that are separately negotiated with investors in those vehicles. We have also launched multi-strategy products, which invest in our funds, co-investment vehicles and external funds. As of December 31, 2013, we had $4.6 billion of AUM in these other private equity products.

Real Assets

Energy

We manage investments in energy assets, such as oil and natural gas properties. In 2010 we launched our first dedicated energy fund, the KKR Natural Resources Fund, which seeks to acquire and operate oil and natural gas properties in mature basins located primarily in the United States. In acquiring these properties, which are typically considered to be non-core by their sellers, we seek to generate value through optimizing production around the acquired properties (via workovers and other

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operational initiatives), reducing operating costs, and optimizing commercial and marketing arrangements.

Since the launch of the KKR Natural Resources Fund, we have invested in our capabilities, both with respect to our team of investment professionals and our relationships with technical partners. With these capabilities, we have expanded our energy strategy to target real asset investment opportunities across the upstream and midstream segments of the oil and gas industry. As part of this effort, we have completed investments in oil and gas drilling development transactions with operating companies and have also acquired mineral and royalty interests. We invest in various of these energy strategies through our newest energy fund, the KKR Energy Income and Growth Fund. As of December 31, 2013, we have received $2,289.6 million of capital commitments to our energy funds and $861.0 million of capital commitments to this strategy through separately managed accounts.

Our energy business aims to deliver current returns to fund investors through distributions generated by producing and selling the oil and natural gas reserves of these acquired properties and providing fund investors with exposure to commodity prices and the optionality of future drilling and production. We work closely with external teams of technical and operational experts to assist in the selection, evaluation and operation of investments.

Infrastructure

We manage investments in infrastructure assets in order to capitalize on the growing demand for global infrastructure investment, and began investing through our first dedicated infrastructure fund, KKR Global Infrastructure Investors L.P., in 2011. 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 including current income through the acquisition and operational improvement of assets important to the functioning of the economy. Through this strategy we have made investments in parking, alternative energy, district heating and contracted electricity generation, water and wastewater and telecommunications infrastructure. As of December 31, 2013, we had received $1,042.4 million of capital commitments to our Infrastructure Fund and $1,356.0 million of capital commitments to this strategy through co-investment vehicles.

Real Estate

We have hired several experienced real estate investment executives since 2011, who have helped the firm develop a dedicated real estate strategy. Committing our own seed capital to develop this strategy, we launched our first dedicated real estate fund, KKR Real Estate Partners Americas, in 2013. In addition, we have the flexibility to invest in real estate transactions across the capital structure through various vehicles, including our private equity and alternative credit funds. This platform targets real estate opportunities, including direct investments in real property, debt, 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. Through this strategy, we have made real estate investments in residential and commercial assets. As of December 31, 2013, we have received $1.2 billion of capital commitments through our real estate fund.

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Real Asset Investment Process

Our energy, infrastructure and real estate funds have a similar investment process as that described under " Private Equity." Investment teams for a particular real asset strategy formally present investments to the applicable strategy oriented investment committee, which monitors all due diligence practices and must approve an investment before it may be made. Each of our real asset strategies also has a portfolio management committee that works 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. In addition to leveraging the resources of the firm, our energy and real estate investment teams partner with technical experts and operators to manage our real asset investments.

Real Asset Fund Structures

Our energy, infrastructure and real estate funds have investment periods of up to 6 years and generally have a fund term of up to 13 years. Management fees for such funds range from 0.75% to 1.5% on commitments, invested capital or net asset value during the investment period and on unreturned contributions or net asset value for investments thereafter, subject to certain adjustments. These funds generally have performance hurdles of 8% to 10% subject to a catch-up allocation to the general partner after the hurdle has been reached. Thereafter the general partners of such funds share in 10% to 20% of net profits realized by limited partners.

Public Markets

We operate our credit and hedge funds businesses through the Public Markets segment. Our credit business is managed by KKR Asset Management, LLC, or KAM, an SEC registered investment adviser. KAM advises funds, structured finance vehicles, separately managed accounts, business development companies ("BDCs") and other investment companies registered under the Investment Company Act of 1940 (the "Investment Company Act") that invest capital in (i) leveraged credit strategies, such as leveraged loans and high yield bonds and (ii) alternative credit strategies such as mezzanine investments, special situations investments, direct lending investments and long/short credit. In addition, on February 19, 2014, KKR acquired Avoca Capital and its affiliates ("Avoca"), a leading European credit investment manager with approximately $8.4 billion in assets under management as of December 31, 2013.

In addition to our credit business, we have a hedge funds business that offers a variety of investment strategies and focuses on providing investment solutions for institutional investors. These strategies are managed by KAM and Prisma Capital Partners LP, or KKR Prisma, an SEC registered investment adviser. This business offers customized hedge fund portfolios, hedge fund-of-fund solutions and a long/short equity strategy. In addition, on January 23, 2013, we acquired a 24.9% interest in Nephila Capital Ltd. ("Nephila"), an investment manager focused on investing in natural catastrophe and weather risk.

We intend to continue to grow the Public Markets 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 various levels of the capital structure and across market cycles.

As of December 31, 2013, this segment had $33.1 billion of AUM, comprised of $13.0 billion of assets managed in our leveraged credit strategies, $6.5 billion of assets managed in our alternative credit strategies, $2.3 billion of assets managed across a range of strategies through KFN, $10.1 billion of assets managed in our hedge fund solutions strategies, $0.4 billion of assets managed in our liquid long/short equity strategies and $0.8 billion of assets managed in other strategies. Our alternative credit investments include $1.8 billion of assets managed in our mezzanine strategy, $3.0 billion of assets

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managed in our special situations strategy, $1.5 billion of assets managed in our direct lending strategy and $0.2 billion of assets managed in our long/short credit 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, 2013.

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 KPE Transaction and, therefore, exclude the net asset value of KPE and its former commitments to our investment funds.

(2) Assets under management as of December 31, 2013 do not include the AUM of Avoca, which did not contribute to Public Markets AUM until the completion of the acquisition on February 19, 2014. In addition, assets managed by entities in which we hold a minority interest, such as Nephila, are not included.

Credit

Performance

We generally review our performance in our credit business 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 indices. The following table presents information regarding larger leveraged credit strategies managed by KKR from inception to

December 31, 2013. Past performance is no guarantee of future results.

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Leveraged Credit Strategies: Inception-to-Date Annualized Gross Performance vs. Benchmark by Strategy

	Inception Date	AUM	Gross Return	Net Returns	Benchmark(1)	Benchmark Gross Returns
Bank Loans Plus High Yield(2)	July 2008	$ 3,343	10.56%	9.86%	65% S&P/LSTA, 35% BoAML HY Master II Index(3)	7.92%
Opportunistic Credit	May 2008	1,033	16.66%	14.24%	BoAML HY Master II Index(4)	9.97%
Bank Loans(2)	April 2011	2,052	6.34%	5.70%	S&P/LSTA Loan Index(5)	5.03%
High Yield(2)	April 2011	1,278	9.45%	8.85%	BoAML HY Master II Index(6)	8.37%
Bank Loans Conservative	April 2011	831	5.56%	4.93%	S&P/LSTA BB-B Loans(7)	5.00%

(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, issuers having a credit rating lower than BBB3, but not in default, are also included. While the returns of KAM strategies reflect the reinvestment of income and dividends, none of the indices presented in the chart above reflect such reinvestment, which has the effect of increasing the reported relative performance of the KAM strategies as compared to the indices. Furthermore, these indices are not subject to management fees, incentive allocations or expenses. It is not possible to invest directly in unmanaged indices.

(2) The AUM of the Bank Loans Plus High Yield strategy is also included in the AUM of the High Yield strategy and the AUM of the Bank Loans strategy.

(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% BoAML HY Master II Index.

(4) The Opportunistic Credit strategy invests in high yield securities and corporate loans with no preset allocation. The Benchmark used for purposes of comparison for the Opportunistic Credit strategy presented herein is based on the BoAML HY Master II Index.

(5) Performance is based on a composite of portfolios that primarily invest in leveraged loans. The Benchmark used for purposes of comparison for the Bank Loans strategy is based on the S&P/LSTA Loan Index.

(6) Performance is based on a composite of portfolios that primarily invest in high yield securities. The Benchmark used for purposes of comparison for the High Yield strategy is based on the BoAML HY Master II Index.

(7)

Performance is based on a composite of portfolios that primarily invest in leveraged loans rated B-/Baa3 or higher. The Benchmark used for purposes of comparison for the Bank Loans strategy is based on the S&P/LSTA BB/B Loan Index

Our alternative credit strategies primarily invest in more illiquid instruments through closed-end funds. The following table presents information regarding our Public Markets alternative credit vehicles that are the most similar to our Private Markets investment funds in terms of fee structure, commitment period and other terms, from inception to December 31, 2013. Our other alternative credit and equity strategies have begun investing more recently and therefore have not yet developed

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meaningful track records, and thus their performance is not included below. Past performance is no guarantee of future results.

Alternative Credit Strategies: Fund Performance

	Inception Date	Amount: Commitment	Amount: Investment	Fair Value of Investments: Realized Value	Fair Value of Investments: Unrealized Value	Total Value	Gross IRR*	Net IRR*	Multiple of Invested Capital**
		($ in Millions)							
KKR Special Situations Fund L.P.	12/2012	$ 1,967.7	$ 622.0	$ 3.2	$ 671.3	$ 674.5	40.0%	23.3%	1.1
KKR Mezzanine Partners L.P.	3/2010	987.0	522.9	146.6	545.3	691.9	18.4%	10.5%	1.3
KKR Lending Partners L.P.	12/2011	417.5	345.5	27.3	375.8	403.1	16.1%	13.0%	1.2
All Funds		**$ 3,372.2**	**$ 1,490.4**	**$ 177.1**	**$ 1,592.4**	**$ 1,769.5**			**1.2**

*

IRRs measure the aggregate annual compounded returns generated by a fund's investments over a holding period. Net IRRs presented are calculated after giving effect to the allocation of realized and unrealized carried interest and the payment of any applicable management fees. 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.

Such past performance may not be representative of performance in any given period. For additional information regarding impact of market conditions on the value and performance of our investments, see "Risk Factors 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." and " 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."

Investment Approach

Our approach to making investments focuses on creating investment portfolios that seek to generate attractive risk-adjusted returns by selecting investments that may be made at attractive prices, 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, as appropriate, 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 bottom-up perspective, our investment decision is predicated on an investment thesis that is developed using our proprietary resources and knowledge and due diligence.

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 provided with opportunities to invest in

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certain strategies, where appropriate, in the securities of KKR's private equity portfolio companies, though there are limitations across the platform 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 due diligence. This review considers, as appropriate, 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 Markets investment professionals. Strategy-specific investment committees monitor all due diligence practices.

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.

Credit 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, through its subsidiaries, has made additional investments in other asset classes including specialty lending, energy and real estate. Below investment grade debt includes senior secured and unsecured loans, mezzanine loans, high yield bonds, and distressed and stressed debt. KAM serves as the external manager of KFN under a management agreement and is entitled to receive a management fee and an incentive fee. Historically, KFN has formed a part of our Public Markets business. On December 16, 2013, we, certain of our affiliates and KFN entered into a merger agreement pursuant to which KFN would become a subsidiary of KKR. The completion of the merger is subject to various conditions, including, among others things, obtaining the requisite approval of KFN's shareholders.

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, special situations and direct lending. These investments may be made across a range of vehicles including funds, single- or cross-strategy separately managed accounts and BDCs. These managed accounts enable us to tailor an investment program to meet the specific risk, return and investment objective of investors in our funds.

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 and registered investment companies, 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 credit 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 credit 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 credit 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, direct lending and long/short credit. As with our leveraged credit strategy, these are pursued through a combination of separately managed accounts, a BDC and funds. For managing these accounts and funds, we are entitled to receive either fees or a combination of fees and carried interest.

Direct Lending. We manage investments in proprietarily sourced primarily senior debt financings for middle-market companies through our direct lending strategy. We closed our first dedicated direct lending fund, KKR Lending Partners L.P. in December 2012 and managed $1.5 billion of assets in this strategy as of December 31, 2013.

Mezzanine. We manage mezzanine investments primarily through a fund that invests 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 potential. We closed our first dedicated mezzanine fund, KKR Mezzanine Partners L.P. in August 2011 and managed $1.8 billion of assets in this strategy as of December 31, 2013.

Special Situations. We seek to make opportunistic investments largely in distressed companies through our special situations investment strategy. These investments include secondary market distressed investments (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. We closed our first dedicated special situations fund, KKR Special Situations Fund L.P., in December 2013 and managed $3.0 billion of assets in this strategy as of December 31, 2013.

Long/short credit. In 2012 we launched our long/short credit strategy, which invests across capital structures with a focus primarily on corporate credit opportunities and managed $0.2 billion of assets in this strategy as of December 31, 2013.

Products for Individual Investors

KKR Asset Management LLC serves as the registered investment adviser to investment companies registered under the Investment Company Act (or, in the case of the BDC we manage, as its sub-adviser), which are subject to the Investment Company Act and the rules thereunder. The management fees we receive from these registered investment companies are generally paid on a regular basis (typically monthly) and proportionately increase or decrease based on the net asset value or gross assets of the investment company. The management fees we are paid for managing these

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investment companies will generally be subject to contractual rights that require their board of directors to provide prior notice (or, in the case of the BDC we manage, the investment adviser) in order to terminate our investment management services.

Hedge Funds

Overview

Our hedge fund business is comprised of direct hedge funds, customized hedge fund solutions, and interests in other public markets businesses. We established our hedge fund business in 2011 with the hiring of a team of experienced public equity investment executives, who manage our long/short equity strategy. In October 2012 we further expanded our hedge fund business with the acquisition of Prisma Capital Partners LP ("KKR Prisma"), through which we provide customized hedge fund portfolio and hedge fund-of-fund solutions. In 2013, we further grew this business with the acquisition of a 24.9% interest in Nephila, an investment manager focused on investing in natural catastrophe and weather risk.

KKR Prisma

KKR Prisma constructs and manages customized hedge fund portfolios and hedge fund-of-funds. It seeks to deliver superior performance by utilizing portfolio construction techniques and an integrated, quantitative approach to risk management. KKR Prisma takes a specialist approach by seeking leading niche hedge fund managers in each strategy. Various strategies are offered to investors, including moderate and low-volatility, equity, credit and opportunistic, in both commingled and separate account portfolios. For the year ended December 31, 2013, KKR Prisma's low volatility composite, consisting of all fee-paying accounts that it manages using a low volatility strategy, returned 12.0% gross of fees. As of December 31, 2013, KKR Prisma managed $10.1 billion of AUM.

KKR Equity Strategies

KKR Equity Strategies pursues fundamental research driven long/short investments, primarily in liquid public equity securities of companies that are based in North America and Latin America. Launched in 2011, the team targets a low volatility and low net exposure approach. The team also utilizes proprietarily developed portfolio risk analytics that have an important role in informing the team's research, investment decision-making and monitoring processes. As of December 31, 2013, KKR Equity Strategies managed $0.4 billion of AUM.

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Public Markets Vehicle Structures

The table below presents information as of December 31, 2013 relating to our Public Markets Vehicles.

($ in millions)	AUM	FPAUM	Typical Mgmt Fee Rate	Incentive Fee / Carried Interest	Preferred Return	Duration of Capital
KFN	$ 2,252	$ 2,252	1.75%	25.00%	8.00%	Indefinite(1)
Leveraged Credit:						
Leveraged Credit SMAs/Funds	5,200	5,196	0.50% - 1.00%	N/A	N/A	Subject to redemptions
CLO's	6,654	1,726	0.50%	N/A	N/A	10 - 14 Years(3)
Total Leveraged Credit	11,854	6,922				
Alternative Credit(2)	5,264	4,526	0.75% - 1.50%(4)	10.00 - 20.00%	7.00 - 8.00%	8 - 15 Years(3)
Long/Short Equities	448	327	1.25% - 1.50%	17.50 - 20.00%	N/A	Subject to redemptions
Hedge Fund Solutions	10,105	10,099	0.50% - 1.50%	Various(5)	Various(5)	Subject to redemptions
Corporate Capital Trust(6)	2,367	2,367	1.00%	10.00%	7.00%	7 years
Other	787	748	0.50% - 1.50%	Various	Various	Various
Total	**$ 33,077**	**$ 27,241**				

(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 2013 and for separately managed accounts and funds investing in alternative credit strategies from 2009 through 2013.

(4) Lower fees on uninvested capital in certain vehicles.

(5) Certain funds are subject to a performance fee in which the manager or general partner of the funds share in up to 10% of the net profits earned by investors in excess of performance hurdles (generally tied to a benchmark or index) and subject to a provision requiring the funds to regain prior losses before any performance fee is earned.

(6)

Corporate Capital Trust is a BDC sub-advised by KAM. By December 31, 2018, the capital in the Corporate Capital Trust vehicle may have an indefinite duration. This vehicle invests in both leveraged credit and alternative credit strategies.

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 employs approximately 45 executives and supports our firm, our portfolio companies and third-party clients by developing and implementing both traditional and non-traditional capital solutions for investments or companies seeking financing. These services include arranging debt and equity financing for transactions, placing and underwriting securities offerings and providing other types of capital markets services. When we underwrite an offering of securities or a loan on a firm commitment basis, we commit to buy and sell an issue of securities or indebtedness and generate revenue by purchasing the securities or indebtedness at a discount or for a fee. When we act in an agency capacity, we generate revenue for arranging financing or placing securities or debt with capital markets investors. 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. Our third party capital markets activities are generally carried out through Merchant Capital Solutions LLC, a joint venture with two other unaffiliated partners, and non-bank financial companies, or NBFCs, in India.

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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 fund investors and other stakeholders. The majority of our principal assets consist of general partner interests in KKR investment funds, limited partner interests in certain KKR private equity funds, co-investments in certain portfolio companies of such private equity funds, and other assets we acquired in the KPE Transaction, with the remaining holdings consisting of assets held in the development of our business, including seed capital for new strategies and other opportunistic investments. 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, 2013, the segment had $5.0 billion of investments at fair value. The following charts present information concerning our principal assets by type as of December 31, 2013.

Investments by Type

Client & Partner Group

We have a Client & Partner Group that is responsible for raising capital for us globally across all products, expanding our client relationships across asset classes and across types of fund investors, developing products to meet our clients' needs, and servicing existing fund investors and products. We also provide fundraising services to Nephila. As of December 31, 2013, we had 74 executives and professionals dedicated to our Client & Partner Group.

As of December 31, 2013, we had approximately 700 investors in funds across all our strategies, which reflects the addition of approximately 120 investors during the year. On average, a fund investor

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is invested in approximately 1.6 of our products as of December 31, 2013. The following charts detail our investor base by type and geography as of December 31, 2013.

Investor Base By Type(1) **Investor Base By Geography(1)**

(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 with allocations assigned to a type or geographic region according to subscriptions received from a limited partner.

Competition

We compete with other investment managers for both fund investors and investment opportunities. The firm's competitors consist primarily of sponsors of public and private investment funds, real estate development companies, business development companies, investment banks, commercial finance companies and operating companies acting as strategic buyers. We believe that competition for fund 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 fund investors, including high net worth individuals, family offices and state- sponsored entities.

There are numerous funds focused on private equity, real assets, credit and hedge fund strategies that compete 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 fund investors increasingly consolidate their relationships for multiple investment products with a few investment firms, competition for capital from such institutional fund 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 classes, longer operating histories, more established relationships or greater experience. Several of our

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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. For example, master limited partnerships, or MLPs, which typically invest in oil and gas assets, may have a lower cost of capital than, and may compete with our energy funds for investment opportunities. 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 fund investors, but we also seek to service other third parties, principally through Merchant Capital Solutions LLC. 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, 2013, we employed or retained the services of over 1,000 people worldwide:

Investment Professionals	265
Other Professionals	472
Support Staff	256
Total Employees	993
KKR Capstone	53
Senior Advisors	38
Total Employees, Consultants and Advisors(1)	**1,084**

(1) Does not include all consultants who provide services to us or our funds.

Investment Professionals

Our 265 investment professionals come from diverse backgrounds in private equity, real assets, credit, hedge funds 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 strong global team for identifying attractive investment opportunities, creating value, and generating superior returns.

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Other Professionals

Our 472 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 fund investors and creating relationships with new fund investors globally. Additionally, a majority of these other professionals are responsible for supporting the global infrastructure of KKR.

KKR Capstone

We have developed an institutionalized process for creating value in investments. As part of our effort, we utilize a team of 53 operating consultants at KKR Capstone, who work exclusively with our investment professionals and portfolio company management teams and otherwise at our direction. With professionals in North America, Europe and the Asia-Pacific, 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 a team of 38 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 source and 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.

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Organizational Structure

The following simplified diagram illustrates our organizational structure as of December 31, 2013, unless otherwise noted. Certain entities depicted below may be held through intervening entities not shown in the diagram.

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(1) 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.

(2) KKR Holdings is the holding vehicle through which certain of our current and former 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, 2013, KKR Holdings had a 58.4% 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 "2020 Senior Notes"). The 2020 Senior Notes are guaranteed by KKR & Co. L.P. and the KKR Group Partnerships.

(5) KKR Group Finance Co. II LLC is a wholly-owned subsidiary of KKR Management Holdings Corp. and the issuer of our $500 million aggregate principal amount of 5.500% Senior Notes due

2043 (the "2043 Senior Notes"), which were issued on February 1, 2013. The 2043 Senior Notes are guaranteed by KKR & Co. L.P. and the KKR Group Partnerships.

(6) 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.

(7) KKR Management Holdings L.P. is the parent company of Kohlberg Kravis Roberts & Co. L.P., the SEC-registered investment adviser, which in turn is generally the parent company for KKR's other management and capital markets subsidiaries including KKR Asset Management LLC, Prisma Capital Partners LP and KKR Capital Markets Holdings L.P., the holding company for KKR Capital Markets LLC. KKR Fund Holdings L.P. is the parent company of Avoca.

(8) 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 KPE 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 fund investors who participate in those markets rather than protecting the interests of our unitholders.

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 subsidiaries KKR Asset Management LLC and Prisma Capital Partners LP, each of which is registered as an investment adviser with the SEC under the Investment Advisers Act. The 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

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duties impose restrictions and obligations on us with respect to our dealings with our fund 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.

KKR Asset Management is subject to regulation under the Investment Company Act as an investment adviser to registered investment companies. The KKR Income Opportunities Fund is a closed-end management investment company, and KKR Series Trust is an open-end management investment company, registered under the Investment Company Act. The open-end management investment company, the closed-end management company and KKR Asset Management are subject to the Investment Company Act and the rules thereunder, which among other things regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions. Avoca is a sister company of Kohlberg Kravis Roberts & Co. L.P.

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. MCS Capital Markets LLC is registered as a broker- dealer with the SEC under the Exchange Act and in 36 U.S. States. As a registered broker-dealer, KKR Capital Markets LLC and MCS Capital Markets LLC are 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

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services cross border into all countries in the European Economic Area and Gibraltar. Kohlberg Kravis Roberts & Co. Partners LLP, 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 Asset Management Partners LLP, 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. On February 19, 2014, KKR acquired Avoca, a European credit investment firm. Avoca is authorized in the United Kingdom under FSMA. The Financial Conduct Authority or FCA 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. Prisma Capital Management International LLP is authorized by the FCA to carry on any investment services and activities on a regular basis except reception and transmission of orders in relation to one or more financial instruments or investment advice.

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 and MCS Capital Markets LLC, respectively, are 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 Type II Financial Instruments Business Operator (broker dealer) registered under the Financial Instruments and Exchange Act of Japan, and a certified money lender registered under the Money Lending Business Act of Japan.

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 Saudi Limited is licensed by the Capital Market Authority in Saudi Arabia and is authorized for the activity of arranging in the securities business.

KKR Australia Pty Limited and KKR Australia Investment Management Pty Limited are Australian financial services licensed and are authorized to provide advice on and deal in financial products for wholesale clients, and are 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.

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KKR Singapore Pte. Ltd. is licensed by the Monetary Authority of Singapore to conduct fund management for accredited and/or institutional investors only through a capital markets services license.

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.

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.

KKR India Alternative Credit Opportunities Fund I, KKR India Debt Fund I, KKR India Debt Opportunities Fund III are licensed by the SEBI as a Category II Alternative Investment Fund Debt Fund pursuant to which it can raise capital from eligible investors and make investments primarily in debt or debt securities of listed or unlisted Indian issuers.

KKR Account Adviser (Mauritius) Ltd., is registered as a Foreign Institutional Investor ('FII') with SEBI pursuant to which it can investment in listed and unlisted securities of Indian issuers and facilitate investments by registered sub-accounts.

Silverview Investments Pte. 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.

KKR Asia II Portfolio Investors Pte. 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.

Motichand Finance 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.

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.

Avoca is regulated by the Central Bank of Ireland.

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, listed on the Irish Stock Exchange, notified with the Financial Services Agency of Japan for sale pursuant to certain private placement exemptions, registered with the Financial Supervisory Service of the Republic of Korea, subject to the regulatory supervision of the Commission de Surveillance du Secteur Financier of Luxembourg, notified with the

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Netherlands Authority for Financial Markets for sale pursuant to certain private placement exemptions, or registered under the Investment Company Act.

There are a number of 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 "Investor Center" 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 "Investor Center" heading at *www.kkr.com*.

ITEM 1A. RISK FACTORS

Investing in our securities involves risk. Persons investing in 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. 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.

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 significant degree, there continue to be lingering signs of economic weakness, characterized by low levels of growth and high levels of unemployment and governmental deficits in major markets including the United States and Europe. In addition, while volatility has declined in 2013, global financial markets have experienced periods of significant volatility in particular 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+. Furthermore while a number of policy actions have been implemented with respect to debt and banks in a number of European countries, Europe continues to experience negative growth and ongoing austerity. Deleveraging in the developed world is continuing and likely to persist in the near-term. In the U.S., while federal lawmakers passed certain interim measures to fund the federal government in October 2013, a failure to reach a longer term budget agreement could lead to another federal government shut down or otherwise adversely impact the financial markets. In the spring of 2013, concerns about the Federal Reserve's plan to scale back its monetary stimulus plan later in 2013 caused investors to sell off significant amounts of stocks and bonds, resulting in the rapid increase in interest rates. In the fourth quarter of 2013 the Federal Reserve announced a plan to gradually scale down its Large Scale Asset Purchase program commonly referred to as Quantitative Easing; this and further changes in monetary policy could impair the economic recovery in the U.S. and lead to increased volatility. Furthermore, while U.S. financial institutions have seen recent improvements, global 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 the private equity funds contributed to us in the KPE Transaction were marked down to 67% of original cost, and values across all geographies declined. For example, as of March 31, 2009, the European Fund II, European Fund III, 2006 Fund and Asian Fund had multiples of invested capital of 0.5x, 0.6x, 0.7x and 0.8x, respectively. As of December 31, 2013, these same funds are each valued at multiples of invested capital of 1.5x, 1.4x, 1.6x and 1.8x, respectively. 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.

Unfavorable market conditions may reduce opportunities for our funds to make, exit and realize value from their investments. For example, when financing is not available, it is difficult for potential buyers to raise sufficient capital to purchase assets in our funds' portfolios. Consequently, we may earn lower than expected returns on investments, which could cause us to realize diminished or no carried interest. In addition, 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 and successful deployment of capital from the existing fund. In the event of poor performance by existing funds or during periods of unfavorable fundraising conditions, pressures by fund investors for lower fees, different fee sharing arrangements for transaction or other fees, and other concessions (for example, the inclusion of performance hurdles that require us in our newer funds, such as North America Fund XI and Asian Fund II, to generate a specified return on investment prior to our right to receive carried interest) will 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

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predecessor funds. Fund investors may also seek to redeploy capital away from certain of our credit 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."

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 amounts 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 and resulting in lower or no carried interest being paid to us. Adverse conditions may also increase the risk of default with respect to private equity, credit and other equity investments that we manage or the abandonment or foreclosure of our real asset investments. Even if economic and market conditions do improve broadly, adverse conditions in particular sectors may also cause our performance to suffer. Finally, low interest rates related to monetary stimulus and economic stagnation may negatively impact expected returns on all types of investments as the demand for relatively higher return assets increases and the supply decreases.

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 or refinance existing debt 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 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.

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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;
- service debt obligations, as well as any contingent liabilities that may give rise to future cash payments;
- 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, including other investment advisory and broker-dealer businesses.

These liquidity requirements are significant and, in some cases, involve capital that will remain invested for extended periods of time. As of December 31, 2013, we have approximately $1.2 billion 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, 2013, we had $1.0 billion of borrowings outstanding under our credit facilities and debt securities and $2.2 billion 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 2016 and 2017 and our senior notes become due in 2020 and 2043 (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 or other market conditions, we may not be able to renew all or part of these borrowings or find alternate sources of financing on commercially reasonable terms and we may not be able to 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 addition, in connection with our acquisitions of KKR Prisma and a minority interest in Nephila, we may be obligated to make future deferred purchase price payments based on the respective performance of these 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.

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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 fund investors.

The partnership documents governing our carry-paying funds, including funds relating to private equity, mezzanine, infrastructure, energy, real estate, direct lending and special situations investments, generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation requiring the general partner to return amounts to the fund for distribution to the fund investors at the end of the life of the fund. Under a clawback obligation, upon the liquidation of a fund, the general partner is required to return, typically 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, including the effects of any performance thresholds. Excluding carried interest received by the general partners of funds that were not contributed to us in the KPE Transaction, as of December 31, 2013, no carried interest was subject to this clawback obligation, assuming that all applicable carry paying funds were liquidated at their December 31, 2013 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been $1,350.7 million.

Certain private equity funds that were contributed to us in the KPE Transaction in 2009 also include a "net loss sharing provision." Upon the liquidation of an investment vehicle to which a net loss sharing obligation applies, the general partner is required to contribute capital to the vehicle, to fund 20% of the net losses on investments. In these vehicles, such losses would be required to be paid by us to the fund investors in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed, and a greater share of investment losses would be allocable to us relative to the capital that we contributed to it as general partner. Based on the fair market values as of December 31, 2013, 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 $496.4 million as of December 31, 2013.

Prior to the KPE Transaction in 2009, certain of our principals who received carried interest distributions with respect to certain private equity funds contributed to us had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of such private equity funds to repay amounts to fund investors pursuant to the general partners' clawback obligations. The terms of the KPE Transaction require that our principals remain responsible for any clawback obligations relating to carry distributions received prior to the KPE Transaction, up to a maximum of $223.6 million. Through investment realizations, this amount has been reduced to $217.8 million as of December 31, 2013. Using valuations as of December 31, 2013, no amounts are due with respect to the clawback obligation required to be funded by our principals. Carry distributions arising subsequent to the KPE Transaction may give rise to clawback obligations that may be allocated generally to us and our principals who participate in the carry pool. Unlike the clawback obligation, we will be responsible for amounts due under a net loss sharing obligation 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 obligations in favor of third party investors in an individual investment partnership by entities we own 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, 2011, 2012 and 2013 were $723.6 million, $568.4 million and $762.5 million, respectively. We may create new funds or investment products or vary the terms of our funds or investment products (for example our newer funds include performance hurdles), 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, 2011, 2012 and 2013 was $1.9 million, $560.8 million and $691.2 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. For example, with respect to our private equity funds, carried interest is distributed to the general partner of a private equity fund with a clawback or net loss sharing provision only after all of the following are met: (i) a realization event has occurred (e.g., sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception, in excess of performance hurdles where applicable; and (iii) with respect to investments with a fair value below cost, cost has been returned to fund 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.

In addition, with respect to certain of the funds that we advise, such as hedge funds, fund of funds and KFN, we are entitled to incentive fees that are generally paid annually, semi-annually or quarterly if the net asset value of a fund has increased over a certain pre-determined hurdle rate or a specified high-water mark. These funds, but not KFN, also have "high-water mark" provisions whereby if the funds have experienced losses in prior periods, we will not be able to earn incentive fees with respect to a fund investor's account until the net asset value of the fund investor's account exceeds the highest

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period end value on which incentive fees were previously paid. The incentive fees we earn are therefore dependent on the net asset value of these funds or vehicles, which could lead to volatility in our quarterly results and cash flow. Fees, including incentive fees, from KFN will be eliminated upon the completion of the KFN merger on a segment basis.

The timing and receipt of carried interest also varies with the life cycle of our funds. Our carry paying funds that have completed their investment periods and are able to realize mature investments, referred to as being in a harvesting period, are more likely to make larger distributions than our carrying paying funds that are in their fund raising or investment periods that precede the harvesting period. During times when a significant portion of our assets under management is attributable to carry paying funds that are not in their harvesting periods, we may receive substantially lower carried interest distributions.

A decline in the pace or size of investment by our funds or an increase in the amount of transaction fees and management or monitoring fees we share with our fund investors would result in our receiving less revenue from such fees

The transaction and management or monitoring 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 revenue from transaction and management or monitoring fees. Many factors could cause such a decline in the pace of investment or the transaction and management or monitoring fees we receive, 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;
- terms we may agree with our fund investors to increase the percentage of transaction or other fees we may share with them; and
- new regulations or actions of regulatory authorities.

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 fund 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 or the extent that we are delayed in raising such a successor fund, our revenues may decrease as the investment period of our predecessor funds expire and associated fees decrease. For example, KKR North America Fund XI, our most recent private equity fund focused primarily on North America, is smaller than its predecessor fund. In addition, the management fee for our European Fund III will decrease beginning the second quarter as the fund enters its post-investment period on March 31, 2014, and we will not have a successor European private equity fund to offset such decrease in fees until such successor fund has its first close and commences its investment period. The evolving preferences of our fund investors may necessitate that alternatives to the traditional investment fund structure, such as

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managed accounts, smaller funds and co-investment vehicles become a larger part of our business going forward. This could increase our cost of raising capital at the scale we have historically achieved. 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 in funds 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 may significantly limit their ability to make new commitments to third-party managed investment funds such as those advised by us.

Fund investors may also seek to redeploy capital away from certain of our credit vehicles, hedge fund, fund of funds 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 fund 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 Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, under what has become known as the "Volcker Rule," broadly prohibits depository institution holding companies (including foreign banks with U.S. branches or agencies), insured depository institutions and their subsidiaries and controlled affiliates, or banking entities, from investing in third-party private equity funds like ours. Final regulations implementing the Volcker Rule were approved by the federal banking agencies, the SEC and the CFTC on December 10, 2013, although there is still uncertainty regarding the implementation of the Volcker Rule and the final regulations and their practical implications. Although banking entities will generally have until July 21, 2015 to conform their existing activities and investments to the requirements of the final regulations, they may be limited in their ability to undertake new contractual commitments to private equity funds like ours. Banking entities have historically represented an important class of investors for our funds, with financial institutions constituting approximately 16% of our AUM as of December 31, 2013, and it is possible that other institutions will not be available to replace this traditional source of capital for our private equity funds. Furthermore, divestitures by banking entities of interests in private equity funds and hedge funds over the next several years to comply with the Volcker Rule may lead to lower prices in the secondary market for our fund interests, which could have adverse implications for our ability to raise funds from investors who may have considered the availability of secondary market liquidity as a factor in determining whether to invest.

The number of funds raising capital varies from year to year, and in years where relatively few funds are raising capital, the growth of our AUM, FPAUM and associated fees may be significantly lower. For example, for the year ended December 31, 2013 several large, private equity funds, namely our North America Fund XI and Asian Fund II, were actively fundraising. AUM for the year ended December 31, 2013 totaled \$94.3 billion, up from \$75.5 billion as of December 31, 2012, of which \$21.2 billion was attributable to new capital raised. As these funds have completed fundraising and as the fundraising outlook for our next Europe focused fund is uncertain, our growth in AUM, FPAUM and associated fees attributable to new capital raised may be significantly lower. In addition, we had several successful fundraises in 2013 for newer strategies such as Real Estate Partners Americas, Energy Income and Growth Fund and our Special Situations Fund, and there is no assurance that fundraises for other new strategies will experience similar success in the future.

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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. For example our newest private equity funds, including North America Fund XI and Asian Fund II, include 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 of these requests to modify the terms in our new funds. Certain of our newer funds also include more favorable terms for fund investors that commit to early closes for our 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 or monitoring fees and transaction and advisory fees. We have received and expect to continue to receive requests from a variety of fund investors and groups representing such investors to decrease fees and to modify our carried interest and incentive fee structures, which could result in a reduction or delay in the 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 profitable to us as the traditional investment fund structure, and the impact such a trend could have on our results of operations, 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 fund investors and investment opportunities. The investment management business is highly fragmented, with our competitors consisting primarily of sponsors of public and private investment funds, real estate development companies, business

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development companies, investment banks, commercial finance companies and operating companies acting as strategic buyers of businesses. We believe that competition for fund 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 fund investors;
- the quality of services provided to fund 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:

- 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, and, in the case of some asset classes, longer operating histories, more established relationships or greater experience;
- fund investors may materially decrease their allocations in new funds due to their experiences following an economic downturn, the limited availability of capital, regulatory requirements or a desire to consolidate their relationships with investment firms;
- some of our competitors may have better expertise or be regarded by fund 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 to fund investors 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 to us than they have been in the past;

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

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;

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- 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 fund 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, as a result, 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.

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

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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.

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, 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. 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.

The most recent legislative proposals 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.

The Obama administration has submitted similar legislation to Congress 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

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rules after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. The Obama administration's published revenue proposals for 2013 and prior years 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 certain activities of our affiliates in New York, although it is unclear when or whether such legislation will be enacted.

If the proposed legislation described above or 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.

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

The Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities, like many of our entities, currently treated as partnerships for tax purposes to an entity-level income tax similar to the corporate income tax. Several proposals for reform, if enacted, could adversely affect us and could reduce the cash we have available for distributions to unitholders or for other uses by us. It is unclear what any actual legislation could provide, when it would be proposed or what its prospects for enactment could be.

Other proposals contemplate the migration of the United States from a "worldwide" system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial tax system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of intangible assets) at a top corporate tax rate that would be 25%. The territorial tax system proposals envisage a revenue neutral result and consequently include revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to the value of our common units. A variation of this proposal contemplates a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of some non-U.S. subsidiaries. Such proposal could have the effect of accelerating and/or increasing the U.S. taxes payable with respect to earnings of certain of our and our portfolio companies' non-U.S. subsidiaries. This proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions, which could result in additional U.S. withholding taxes imposed on U.S-source interest attributable to certain of our non-U.S. subsidiaries or non-U.S. investors. Whether these proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

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 for our private equity funds, 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 credit 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.

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 recent carried interest proposals 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.

Many of our principals 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 bonuses for certain principals currently are borne by KKR Holdings from cash reserves based upon distributions on a portion of KKR Group Partnership Units held by KKR Holdings. In 2013, the amount of such profit-based cash bonuses paid by KKR Holdings L.P. was $90.6 million. 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.

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Moreover, in connection with the KPE Transaction, we made large grants of KKR Holdings units that vest in installments over a five year period commencing October 1, 2009 and will completely vest, subject to certain transfer restrictions on October 1, 2014. 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, which has caused dilution. In addition, we may be unwilling to grant our employees additional significant equity awards in our business, whether before or even after all of the KKR Holdings units granted in October 2009 vest in October 2014, 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 them, we may not be able to enforce them or become subject to lawsuits or other claims, and certain of 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 fund 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 fund 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 fund 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.

Our portfolio companies also rely on data processing systems and the secure processing, storage and transmission of information, including payment and health information. A disruption or compromise of these systems could have a material adverse effect on the value of these businesses.

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, the Middle East and South America, 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, energy, infrastructure and hedge funds. We have and may continue to pursue growth through acquisitions of other investment management companies, acquisitions of critical business partners, strategic partnerships or other strategic initiatives, which may include entering into new lines of business. For example, recently we have formed Merchant Capital Solutions LLC, a joint venture partnership that seeks to provide capital markets services to mid-market and sponsor-backed companies, and Maritime Finance Company, a new specialty finance company created to lend to the maritime industry. In addition, we expect opportunities will arise to acquire other alternative or traditional investment managers. For example, we have built and expanded our hedge fund solutions business with the acquisition of Prisma and expanded our European credit business with our acquisition of Avoca. 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 concentration of the investors in our funds;

- disagreements with joint venture partners or other stakeholders in strategic partnerships; 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 have also entered into strategic partnerships and separately managed accounts, which lack the scale of our traditional funds and are more costly to administer. The prevalence of these accounts may also present conflicts and introduce complexity in the deployment of capital. The offering of investment products to retail investors, including our funds registered under the Investment Company Act, may result in increased compliance and litigation costs. 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.

Our proposed merger with KFN is subject to uncertainty and our acquisitions, including our proposed acquisition of KFN, expose us to increased risks and liabilities.

From time to time, we or our affiliates acquire or agree to acquire other businesses or invest in other businesses. These acquisitions include our proposed merger with KFN. The completion of these acquisitions is subject to various conditions and may expose us to increased risks and liabilities, such as:

- We may be unable to obtain the regulatory clearances required to complete the acquisitions or, in order to do so, we may be required to comply with material restrictions or satisfy material conditions. If we must take such actions, it could be detrimental to us or to the combined organization following the consummation of the relevant acquisition. Furthermore, these actions could have the effect of delaying or preventing completion of the relevant acquisition or imposing additional costs on or limiting the revenues of the combined organization following the consummation of the relevant acquisitions.

- We incur substantial transaction-related costs in connection with our acquisitions including non-recurring transaction-related costs. Non-recurring transaction costs include, but are not limited to, fees paid to legal, financial and accounting advisors, filing fees and printing costs. Additional unanticipated costs may be incurred in the integration of the businesses.

Failure to successfully combine the acquired businesses in the expected timeframe may adversely affect the future results of the combined organization, and, consequently, the value of our common units. The success of our acquisitions will depend, in part, on our ability to realize the anticipated benefits from combining our businesses and the acquired business on a timely basis. Failure to fully realize the anticipated benefits of the acquisition could result in declines in the market value of KKR common units.

Failure to complete an acquisition, or significant delays in completing an acquisition, could negatively affect the trading prices of our common units and our future business and financial results. Completion of an acquisition is not assured and is subject to risks, including the risks that approval by the shareholders or by governmental agencies is not obtained or that other closing conditions are not satisfied. If an acquisition is not completed we may also be liable for damages or have to pay certain significant costs relating to the acquisition; and the attention of our management will have been diverted to the acquisition rather than our own operations and pursuit of other opportunities that could have been beneficial to us.

Purported class action complaints may be, and in the case of the proposed KFN merger have been, filed challenging the acquisition, and an unfavorable judgment or ruling in these lawsuits could prevent or delay the consummation of an acquisition and result in substantial costs. In the case of the proposed KFN merger, multiple class action lawsuits are currently pending that challenge the merger. Each lawsuit names as defendants some or all of the parties to the merger and the individual members of KFN's board of directors. Among other remedies, the plaintiffs seek to enjoin the proposed merger. If these lawsuits are not dismissed or otherwise resolved, they could prevent and/or delay completion of the merger and result in substantial costs, including any costs associated with the indemnification of directors. Additional lawsuits may be filed in connection with the proposed merger. There can be no assurance that any of the defendants will prevail in the pending litigation or in any future litigation. The defense or settlement of any lawsuit or claim may adversely affect the combined organization's business, financial condition or results of operations.

Acquisitions, if consummated, subject us to additional risks related to the acquired entity's business and operations. For example, following the KFN merger, if completed, we will be subject to the risk that the conduct of KFN's operations may render it an investment company and we would be required to sell assets, change the manner of its operations or register KFN as an investment company. If KFN were to be deemed to be an investment company, maintaining KFN's investment company status might also make it more difficult for KKR to comply with its own exemption from investment company status under the Investment Company Act. See " 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." Upon completion of the merger, we will also have increased exposure to the CLO and leveraged finance markets. See " Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments." Upon the completion of the merger, it is expected that KFN would be consolidated, and, as a result, the management and incentive fees we earn from KFN would be eliminated on a segment basis. In addition, in enlarging our balance sheet, we are pursuing a different business strategy than our competitors, which generally have smaller balance sheets than we do. To the extent we are unsuccessful in developing this strategy, our business and financial results may suffer.

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. If we are required to retain investments on our balance sheet for an extended period of time, the inability of our capital markets business to complete additional transactions would impair our results. 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 fund investors or fail to gain new clients and fund investors.

As a result of market disruptions in the past years as well as highly publicized financial scandals, regulators and fund investors exhibited concerns over the integrity of the U.S. and global financial markets. In response, regulators in the United States and elsewhere launched programs of regulatory reform that have broad implications for us and for our funds, as well as for many of the markets in which we and they operate. In addition, 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 or more expensive, affect

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the manner in which we conduct business and divert significant management and operational resources and attention from our business. Moreover, we anticipate the potential for an 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.

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 regulatory standards regarding capital, leverage, conflicts and other requirements for financial firms deemed to pose a systemic threat to the financial stability 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 subsidiaries KKR Asset Management LLC and Prisma Capital Partners LP 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 April 3, 2012, the FSOC issued a final rule and interpretive guidance regarding the process by which it will designate nonbank financial companies as systemically important. The rule and guidance detail a three-stage review 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 nonbank financial companies that warrant additional review. In this first stage, the FSOC considers whether a nonbank financial 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 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 at least one of the other thresholds will be subject to additional review in Stage 2. Although we have more than $50 billion in total consolidated assets as of December 31, 2013 and we believe we should not currently meet the Stage 1 criteria outlined above, those criteria as well as our business may evolve over time. Additional uncertainty is created because the FSOC retains authority to designate any nonbank financial company as systemically important, even if the company does not meet the Stage 1 criteria. The FSOC will consider in the future whether to establish "an additional set of metrics or thresholds tailored to evaluate hedge funds and private equity firms and their advisers." The preamble to the final 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 are required to file with the SEC and CFTC, 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, including more stringent standards relating to capital, leverage, liquidity, risk management, resolution planning and credit exposure reporting and concentration limits, restrictions on acquisitions and annual stress testing by the Federal Reserve. 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 important to the financial stability of the U.S. economy.

The Dodd-Frank Act, under what has become known as the "Volcker Rule," broadly prohibits depository institution holding companies (including foreign banks with U.S. branches or agencies), insured depository institutions and their subsidiaries and controlled affiliates (", or banking entities"), from investing in third-party private equity funds like ours. See " 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."

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 are 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 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 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 October 2011, the CFTC passed rules instituting position limits on certain physical commodity futures contracts, as well as swaps that are economically equivalent. Absent an applicable exemption, the regulations would have required aggregation of positions in accounts in which any person, directly or indirectly, holds an ownership interest of 10% or more, as well as accounts over which that person controls trading. In September 2012, the U.S. District Court for the District of Columbia struck down these rules, but the CFTC has issued new rules regarding position limits that are substantially similar to the October 2011 rules. The timing of the adoption and the content of the final rules remain unclear. If the proposed rules are adopted in substantially the form proposed and 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 still 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 also imposes 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 central clearing house. Although these requirements presently apply only to certain classes of interest rate swaps and credit default swaps, the CFTC is expected to mandate central execution and clearing with respect to additional classes of swaps in the future. In addition, entities acting as dealers or "major swap participants" must register in the appropriate category and comply with capital, margin, record keeping, reporting and business conduct rules and that over-the-counter derivative transactions be reported to central swaps data repositories. 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 us or our funds to enter into swaps and other derivatives in the normal course of our business. Among other things, margin requirements for swaps and other derivatives are expected to be greater than was previously the case in the over-the-counter market. 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 and reduce hedging opportunities in connection with their trading activities.

In February 2012, the CFTC issued a final rule that rescinded an exemption from CFTC registration for commodity pool operators in connection with privately offered funds, narrowed an exception from commodity pool operator registration obligations with respect to registered investment companies, and amended related rules and guidance. The CFTC and its staff have subsequently issued interpretive guidance and no-action letters regarding these exceptions and exclusions, and are expected to issue further guidance, including guidance regarding the registration obligations of operators of funds-of-funds. In addition, under Title VII of the Dodd-Frank Act, the CFTC has assumed regulatory authority over many types of swaps. As a result, operating pooled funds or providing investment advice to clients that trade these swaps is now a basis for registration with the CFTC, absent an applicable exemption. Monitoring and analysis of whether these new rules would require us or one or more of our affiliates to register with the CFTC as commodity pool operators and/or commodity trading advisors requires management and operational resources and attention. Furthermore, operating our funds in a manner consistent with one or more exemptions from registration with the CFTC may limit the activities of certain of our funds, including our funds of funds. Registration with the CFTC, if required, could impact our operations and add additional costs associated with ongoing compliance.

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In August 2012, the regulation on OTC Derivatives, Central Counterparties and Trade Repositories (also known as the European Market Infrastructure Regulation, or EMIR) became effective. Certain of the requirements of EMIR came into force in March 2013, and other obligations will be phased in. EMIR imposes a requirement that certain "standardized" OTC derivatives contracts are centrally cleared. Where OTC transactions are not subject to central clearing, techniques must be employed to monitor, measure and mitigate the operational and counterparty risks presented by the transaction. These risk mitigation techniques include trade confirmation, reconciliation processes, exchange of margin, and the daily mark-to-market of trades. EMIR also requires certain filings by market participants regarding OTC derivatives trades with central trade repositories. Certain of these risk mitigation obligations came into force on September 15, 2013. Further, market participants will be required to report any European derivative contract to a central trade repository.

On July 17, 2013, the European Securities and Markets Authority (ESMA) published a final report setting out certain regulatory technical standards on contracts with a direct, substantial and foreseeable effect within the EU and non-evasion. These technical standards set out the circumstances in which EMIR's provisions on central clearing and risk mitigation techniques will apply to OTC derivatives by two non-EU counterparties. 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 us or our funds to enter into swaps and other derivatives in the normal course of our 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.

On September 3, 2013, ESMA also published its advice to the European Commission on the equivalence of EMIR with a number of third-country regimes. Based on this advice, the European Commission may make determinations that compliance with such third-country regimes will be deemed equivalent to compliance with EMIR on a recognition or "substituted compliance" basis. "Conditional" equivalence was proposed in relation to certain parts of the CFTC and SEC regimes whereby adherence to the relevant US regimes as well as a number of additional stipulations would deemed equivalent to EMIR. Ongoing regulatory uncertainty regarding the interaction between US and EU requirements for central clearing and related activities could result in duplicative regulatory obligations in the two jurisdictions, and could increase our costs of compliance.

The EU Alternative Investment Fund Managers Directive (AIFMD) entered into effect on July 22, 2013. AIFMD establishes a comprehensive regulatory and supervisory framework for alternative investment fund managers (AIFMs) managing and/or marketing alternative investment funds (AIFs) in the EU. The AIFMD imposes various substantive requirements to authorized AIFMs including rules on the structure of remuneration for certain personnel, a threshold for regulatory capital, reporting obligations in respect of controlled EU portfolio companies and increased transparency towards investors and regulators and allows authorized AIFMs to market AIFs to professional investors throughout the EU under an "EU passport". Available since July 2013 to authorized EU AIFMs, the EU passport is expected to be available to authorized non-EU AIFMs from late 2015. In the meantime (and until at least 2018), non-EU AIFMs may continue to market within the EU under the private placement regimes of the individual member states subject to complying with certain minimum requirements imposed by the AIFMD and any additional requirements that individual member states may impose. The AIFMD will also impose a new, strict depositary regime affecting how prime brokers may provide custody services to fund managers.

Although many member states have now implemented the AIFMD, a number of member states did not meet the implementation deadline of July 22, 2013. Once authorized as an AIFM, the passport system should be available even where the host member has not transposed the AIFMD into national law. AIFMs in member states that have not yet implemented the AIFMD cannot rely on the marketing passport in other member states.

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The AIFMD, the Level 2 Regulation and EU member state implementing measures 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 in the EU, (iii) potentially requiring changes in our compensation structures for key personnel, thereby potentially affecting our ability to recruit and retain these personnel, (iv) potentially in effect restricting our funds' investments in companies based in EU countries; (v) require us to restructure our operations and (vi) generally increasing our compliance costs. The AIFMD, the Level 2 Regulation and the EU member state implementing measures 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.

In October 2011, the European Commission published its proposed revisions to the existing Markets in Financial Instruments Directive (known as MiFID I), consisting of the revised directive MiFID II and a new related regulation, MiFIR. The proposed revisions are intended to further strengthen the EU regulatory framework for the provision of investment services and trading in financial instruments. A number of substantial reforms are proposed on transaction reporting, market structure, securities trading and conduct of business rules, including new regulatory equivalence requirements for third country firms in order for those firms to provide certain investment services in the EU. The MiFID II/MiFIR proposals are expected to be finalized and agreed by EU legislators by the first quarter of 2014 and to enter into effect in late 2014 at the earliest. It is currently expected that the majority of the provisions of MiFID II will come into force in member states during 2016. These regulations of investment firms is expected to increase the regulatory and operating costs of our affected businesses, particularly with regards to reporting requirements.

During the course of 2012, the EU has proposed or adopted a series of regulatory initiatives that may impact certain aspects of our business in EU member states. In March 2012, a regulation that limits sovereign and naked short selling of government bonds and stocks, the Short Selling Regulation, became effective. The Short Selling Regulation took effect on November 1, 2012. In June 2012, the European Commission published a legislative proposal for a directive establishing a framework for the recovery and resolution of credit institutions and investment firms. If and when adopted, the Directive will impose new obligations on covered institutions, including preparation of recovery and resolution plans, and give regulators wide-ranging powers. Revisions to the Markets in Financial Instruments Directive that were proposed in October 2011 are likely to be adopted in 2013 and are expected to result in new regulatory burdens, including a requirement to trade certain derivatives on regulated trading venues. In addition having an EU-regulated broker-dealer may bring other parts of our business, namely our investments in non-EU insurance brokers, within the scope of the EU's Financial Conglomerates Directive. If we were to become subject to these regulations, our business would become subject to capital adequacy requirements, additional reporting and disclosure requirements, a possible request by EU regulators to establish an EU based intermediate holding company controlling the EU based regulated entities and possible stress testing if requested by EU regulator. The imposition of these requirements could increase our and our funds' costs and the complexity of managing our business and may result in fines if we or any of our funds are deemed to have violated any of the new regulations.

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

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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. In July 2011, the European Commission published legislative proposals to implement Basel III's capital and liquidity standards by revising the existing Capital Requirements Directive and issuing a new Capital Requirements Regulation, collectively referred to as CRD IV, which came into force on January 1, 2014. CRD IV replaces the current CRD directive with new measures implementing the Basel III requirements, as well as creating a single harmonized prudential rule book for banks, introducing new corporate governance and a limited number of additional remuneration requirements, including an expected cap on variable remuneration, and enhancing the powers of regulators. In June 2012, the U.S. federal banking agencies issued proposed regulations that, among other things, would implement the Basel III capital framework in the United States. 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 and November 2012, the Financial Stability Board, or FSB, issued reports that recommended strengthening the oversight and regulation of the so-called shadow banking system, 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. The FSB published final recommendations for the regulation and oversight of shadow banking in August 2013. Building on the work of the FSB, a Money Market Funds (MMF) Regulation has been proposed by the European Commission to address such concerns. The key provisions of the proposed MMF Regulation include prescribed levels of daily and weekly liquidity, a capital buffer of 3% for constant net asset value funds, internal risk credit risk assessment to be carried out by the MMF manager to avoid reliance on external credit-ratings, and clear labels to distinguish between standard and short-term MMFs (with residual maturity not exceeding 297 days). While the MMF Regulation has not yet been finalized, based on the current proposals it is likely to extend the regulatory and supervisory requirements, such that 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, the Commodity Exchange 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 additional restrictive and costly registration requirements, regulatory action, or third party claims and our business could be materially and adversely affected. For example, in raising new funds, we typically rely on private placement exemptions from registration under the Securities Act, including Regulation D, which was

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recently amended to prohibit issuers (including our funds) from relying on certain of the exemptions from registration if the fund or any of its "covered persons" (including certain officers and directors, but also including certain third parties including, among others, promoters, placement agents and beneficial owners of 20% of outstanding voting securities of the fund) has been the subject of a "disqualifying event," or a "bad actor," which can include a variety of criminal, regulatory and civil matters. If any of the covered persons associated with our funds is subject to a disqualifying event, one or more of our funds could lose the ability to raise capital in a Rule 506 private offering for a significant period of time, which could significantly impair our ability to raise new funds, and, therefore, could materially adversely affect our business, financial condition and results of operations. In addition, if certain of our employees or any potential significant investor has been the subject of a disqualifying event, we could be required to reassign or terminate such an employee or we could be required to refuse the investment of such an investor, which could impair our relationships with investors, harm our reputation, or make it more difficult to raise new funds. See also " Risks Related to Our Organizational Structure 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."

On the other hand, we are and will become further subject to additional regulatory and compliance burdens as we expand our product offerings and investment platform to include retail investors. For example, funds in our Public Markets segment are registered under the Investment Company Act as management investment companies. These funds and KKR Asset Management LLC, which serves as their investment adviser (or in the case of the business development company, as its sub-adviser), are subject to the Investment Company Act and the rules thereunder, which, among other things, regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions. As our business expands we may be required to make additional registrations, including in jurisdictions outside the U.S. Compliance with these rules will increase our compliance costs and create potential for additional liabilities and penalties the management of which would divert management's attention from our business and investments.

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. For example, federal bank regulatory agencies have issued leveraged lending guidance covering transactions characterized by a degree of financial leverage. To the extent that such guidance limits the amount or cost of financing we are able to obtain for our transactions, the returns on our investments may suffer. 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 or 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 and other export control laws administered by the Office of Foreign Assets Control, or OFAC, the U.S. Department of Commerce and the U.S. Department of State. 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, the U.S. Department of Commerce and the U.S. Department of State administer and enforce various export control laws and regulations, including

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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 fund investors, finding new fund investors, and sourcing new investments, as well as activities by the portfolio companies in our investment portfolio or other controlled investments.

The Iran Threat Reduction and Syrian Human Rights Act of 2012 ("ITRA") expands the scope of U.S. sanctions against Iran. Notably, ITRA prohibits foreign entities that are majority owned or controlled by U.S. persons from engaging in transactions with Iran that would be contrary to the sanctions regulations if undertaken by a U.S. person. In addition, Section 219 of the ITRA amended the Exchange Act to require public reporting companies to disclose in their annual or quarterly reports any dealings or transactions the company or its affiliates engaged in during the previous reporting period involving Iran or other individuals and entities targeted by certain OFAC sanctions. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law or were conducted outside of the United States by a foreign affiliate. To our knowledge, none of our activities during the year ended December 31, 2013, are required to be disclosed pursuant to ITRA, except for certain activities of portfolio companies, as disclosed in Exhibit 99.1 to this annual report. We are required to separately file, concurrently with this annual report, a notice that such activities have been disclosed in this annual report. The SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

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 or other export control laws in the U.S. and abroad, may also impose stricter or more onerous requirements than the FCPA, OFAC, the U.S. Department of Commerce and the U.S. Department of State, 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, escheat or abandoned property laws, and antitrust laws, may impose requirements on us and our 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. Moreover, certain non-U.S. jurisdictions may seek to make us liable for the anti-trust violations, if any, committed by certain of our portfolio companies. 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."

The potential requirement to convert our financial statements from being prepared in conformity with accounting principles generally accepted in the United States of America to International Financial Reporting Standards may materially strain our resources and materially increase our annual expenses.

The SEC may require in the future that we report our financial results under International Financial Reporting Standards, or IFRS, instead of under U.S. GAAP. IFRS is a set of accounting principles that has been gaining acceptance on a worldwide basis. These standards are published by the London-based International Accounting Standards Board ("IASB") and are more focused on objectives and principles and less reliant on detailed rules than U.S. GAAP. Today, there remain significant and material differences in several key areas between U.S. GAAP and IFRS which would affect us if we were required to prepare financial statements in conformity with IFRS. Additionally, U.S. GAAP provides specific guidance in classes of accounting transactions for which equivalent guidance in IFRS does not exist. The adoption of IFRS is highly complex and would have an impact on many aspects and operations of KKR, including but not limited to financial accounting and reporting systems, internal controls, taxes, borrowing covenants and cash management. It is expected that a significant amount of time, internal and external resources and expenses over a multi-year period would be required for this conversion.

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 dissatisfaction of fund investors with the performance of their funds, the activities of our portfolio companies and a variety of other litigation claims. See the section entitled "Litigation" appearing in Note 15 "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 of our funds and

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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, such 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.

In addition, we have formed and may continue to form funds targeting retail investors, which may subject us to additional risk of litigation and regulatory scrutiny. See "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."

If any civil or criminal lawsuits were brought against us and resulted in a finding of substantial legal liability or culpability, 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 fund investors and qualified professionals 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 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.

Misconduct of our employees or at our portfolio companies 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. We may also be adversely affected if there is misconduct by senior management of portfolio companies in which our funds invest, even though we may be unable to control or mitigate such misconduct. 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 precautions we take to detect and prevent this activity may not be effective in all cases. If any of our employees or the employees of portfolio companies were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

Underwriting activities expose us to risks.

KKR Capital Markets LLC, a subsidiary of ours, may act as an underwriter in securities offerings. We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities or indebtedness we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to potential liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite.

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 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 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.

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 including 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 KPE Transaction 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 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 has varied and may vary further in the future. Certain of our newer funds, for example, have lower fee structures and also have performance hurdles. Future returns will also 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 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 for our private equity investments, we typically use a market multiples approach that considers a specified financial measure (such as EBITDA) and/or a discounted cash flow analysis. To value our energy and infrastructure investments, we generally utilize a discounted cash flow analysis, while we use a combination of direct income capitalization and discounted cash flow analysis to value our real estate investments. Credit investments are valued using values obtained from dealers or market makers, and where these values are not available, credit investments are valued by us based on ranges of valuations determined by an independent valuation firm. Each of these methodologies requires estimates of key inputs and significant assumptions and judgments. 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. As a result of the significant assumptions underlying our valuations, our valuations may differ from those of other investors holding the identical investment that we hold.

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 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. 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, fund investors may lose confidence in us, which could in turn result in difficulty in raising capital for future funds.

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.

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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 credit funds use varying degrees of leverage when making investments. Similarly, in many private equity investments, indebtedness may constitute 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 comparable companies with comparatively less debt. For example, leveraged companies could default on their debt obligations due to a decrease in

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revenues and cash flow precipitated by an economic downturn or by poor relative performance at such a company.

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. In the event of default or potential default under applicable financing arrangements, one or more of our portfolio companies may go bankrupt, which could give rise to substantial investment losses, adverse claims or litigation against us or our employees and damage to our reputation.

The majority-owned subsidiaries of KFN 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. If we complete our merger with KFN, we may experience similar problems.

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, and if we complete our merger with KFN, we will have 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.

Our hedge fund-of-funds, long/short equity fund, long/short credit fund, other credit- oriented funds and CLOs may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A fund may borrow money from time to time to purchase or carry securities or debt obligations or may enter into derivative transactions (such as total return swaps) with counterparties that have embedded leverage. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost and the timing and magnitude of such losses may be accelerated or exacerbated in the event of a decline in the market value of such securities or debt obligations. Gains realized with borrowed funds may cause the fund's net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings.

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 be subjective with respect to newly organized companies for which only limited information is available.

Instances of bribery, fraud, accounting irregularities and other improper, illegal or corrupt practices can be difficult to detect, and fraud and other deceptive practices can be widespread in certain jurisdictions. Several of our funds invest in emerging market countries that may not have established laws and regulations that are as stringent as in more developed nations, or where existing laws and regulations may not be consistently enforced. For example, our funds invest throughout jurisdictions that have material perceptions of corruption according to international rating standards (such as "Transparency International" and "Corruption Perceptions Index") such as China, India, Indonesia, Latin America, the Middle East and Africa. Due diligence on investment opportunities in these jurisdictions is frequently more complicated because consistent and uniform commercial practices in such locations may not have developed. Bribery, fraud, accounting irregularities and corrupt practices can be especially difficult to detect in such locations.

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, bribery and other illegal activities and contingent liabilities) 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.

When we conduct due diligence in making and monitoring investments in third party hedge funds, we rely on information supplied by third party hedge funds or by service providers to such third party hedge funds. The information we receive from them may not be accurate or complete and therefore we may not have all the relevant facts necessary to properly assess and monitor our funds' investment in a particular hedge fund.

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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 at many points in 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, and then only at such times when we do not possess material nonpublic information. 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. In addition, as certain of our funds have a finite term, we could be forced to dispose of investments sooner than otherwise desirable. 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 bribery, 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;

- 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;

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- 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;

- 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;

- we or certain of our investment funds could potentially be held liable under ERISA for the pension obligations of one or more of our portfolio companies if we or the investment fund were determined to be a "trade or business" under ERISA and deemed part of the same "controlled group" as the portfolio company under such rules, and the pension obligations of any particular portfolio company could be material. In a recent decision of a federal appellate court (*Sun Capital Partners III LP v. New England Teamsters & Trucking Indus. Pension Fund*), a private equity firm was held to be engaged in a "trade or business" under ERISA;

- we advise funds that invest in businesses that operate in a variety of industries that are subject to extensive domestic and foreign regulation (including companies that supply services to governmental agencies), such as the telecommunications industry, the defense and government services industry, the healthcare industry and oil and gas industry, that may involve greater risk due to rapidly changing market and governmental conditions in those sectors; and

- significant failures of our portfolio companies to comply with laws and regulations applicable to them could affect the ability of our funds to invest in other companies in certain industries in the future and could harm our reputation;

Our investments in real assets such as real estate, infrastructure assets and energy 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, infrastructure assets, oil and gas properties and other energy, 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.

Without limiting the foregoing disclosure, we note that investments that we have made and will continue to make in the oil and gas industries may present specific environmental, safety and other inherent risks, and such investments are subject to stringent and complex foreign, federal, state and local laws, ordinances and regulations specific to oil and gas industries, for example governing controls, taxes, transportation of oil and natural gas, exploration and production, permitting, and various conservation laws and regulations applicable to oil and natural gas production and related operations in addition to regulations governing occupational health and safety, the discharge of materials into the environment or otherwise relating to environmental protection. Failure to comply with applicable laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations and the issuance of orders enjoining some or all of our operations in affected areas. These laws and regulations may also restrict the rate of oil and natural gas production

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below the rate that would otherwise be possible and increase the cost of production thus reducing profitability. Our oil and gas investments are subject to other risks, such as:

- Currently unforeseen environmental incidents may occur or past non-compliance with environmental laws or regulations may be discovered making it difficult to predict the future costs or impact of compliance.

- The oil and gas industries present inherent risk of personal and property injury, for which we may not be fully insured.

- Our estimated oil, natural gas, and natural gas liquids reserve quantities and future production rates are based on many assumptions that may prove to be inaccurate. Any material inaccuracies in these reserve estimates or the underlying assumptions will materially affect the quantities and value of our reserves.

- The performance of our energy investments depend on the skill, ability and decisions of third party operators. Failure of such operators to comply with applicable laws, rules and regulations could result in liabilities to us, reduce the value of our interest in the oil and natural gas properties, adversely affect our cash flows and results of operations.

- If commodity prices decline and remain depressed for a prolonged period, a significant portion of our development projects may become uneconomic and cause write downs of the value of our oil and natural gas properties, which may reduce the value of our energy investments, have a negative impact on our ability to use these investments as collateral or otherwise have a material adverse effect on our results of operations.

Investments in real estate will be subject to the risks inherent in the ownership and operation of real estate and real estate related businesses and assets. These risks include those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy, the financial resources of tenants, changes in building, environmental and other laws, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, terrorist attacks, war and other factors that are beyond our control. In addition, if we acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of our fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms.

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 these real assets are located. 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".

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Certain of our investment funds may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments may be subject to a greater risk of poor performance or loss.

Certain of our investment funds, especially in our special situations strategy, may invest in business enterprises involved in work-outs, liquidations, reorganizations, bankruptcies and similar transactions and may purchase high risk receivables. An investment in such business enterprises entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Investments in troubled companies may also be adversely affected by U.S. federal and state and non-U.S. laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation, which has the potential to adversely impact us or unrelated funds or portfolio companies. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in such company.

Our investment in Nephila is exposed to natural catastrophe and weather risk.

Our investment in Nephila, an investment manager focused on investing in natural catastrophe and weather risk, is exposed to a risk of reduced revenues resulting from natural disasters. Because catastrophic loss events are by their nature unpredictable, historical results of operations of Nephila may not be indicative of its future results of operations. As a result of the occurrence of one or more major catastrophes in any given period, the expected returns from this investment may fall short of our expectations.

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 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.

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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 may be significant and are required to be structured as a consortium transaction. 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.

We and 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.

Our funds and accounts hold investments that include debt instruments and equity securities of companies that we do not control and such investments may comprise an increasing part of our business. 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 making private equity investments in Asia or 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. We have made certain minority investments in publicly traded companies. These transactions could be viewed as unwanted, damage our reputation, and consequently impair our ability to source transactions in the future. 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 the 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 or other funds that we do not control.

We have also recently made minority investments with our principal assets, for example our interest in Nephila and may in the future acquire interests in other investment managers and businesses. To the extent these businesses fail to comply with applicable regulations or laws or otherwise suffer reputational damage, our reputation may suffer.

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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 made by our private equity funds. For example, as of December 31, 2013, approximately 51% 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;
- violations of sanctions regimes;
- 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;

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;

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- 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 laws, 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, certain jurisdictions, including Denmark, France, South Korea, 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) and in the case of Germany, without regard to whether the parties are related, 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, South Korea, 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 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 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, a general anti-avoidance rule was introduced that would provide a basis for the tax authorities to subject other sales and investments through intermediate holding jurisdictions such as Mauritius to Indian tax. The proposed rule is presently scheduled to become effective for tax years beginning on or after April 1, 2015.

Further, the tax authorities in 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 and in the case of South Korea, capital gains, 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 the capital commitments of our funds, vehicles and accounts will be denominated in U.S. dollars, our investments and capital commitments that are denominated in a

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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."

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 fund 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 fund 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 our fund 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.

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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.

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 proposed or adopted regulations governing swaps and security- based swaps, which may limit our trading activities and our ability to implement effective hedging strategies or increase the costs of compliance. 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.

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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, in our Capital Markets and Principal Activities segment. As of December 31, 2013, we hold significant aggregate investments in each of Alliance Boots GmbH, HCA Inc. and First Data 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.

Our business activities may give rise to a conflict of interest with our funds.

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 investment) 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.

- We may structure an investment in a manner that may be attractive to fund investors or to KKR Holdings L.P., from a tax perspective but that may require corporate taxation to unitholders.

- 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.

- Our fiduciary obligations to our fund investors may preclude us from pursuing attractive proprietary investment opportunities, in particular as we enter into strategic relationships with broad investment mandates similar to the investments we make with our principal assets.

- 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.

- Our principals have made personal investments in a variety of our investment funds, which may result in conflicts of interest among investors of our funds or unitholders regarding investment decisions for these funds.

- 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 a 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 separate funds or accounts that invest in different parts of the same company's capital structure. For example, our credit 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 credit 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 fund investors or their advisory committees, 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.

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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 and with which we have signed a merger agreement, 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 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.

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Investors in certain of our Public Markets funds may redeem their investments in these funds with minimal notice.

Investors in our funds of funds along with those in our long/short equity strategy, long/short credit strategy and similar investment vehicles may generally submit redemptions to redeem their investments on a quarterly basis following the expiration of a specified period of time or in certain cases capital may be withdrawn earlier subject to a fee, in each case subject to the applicable fund's specific redemption provisions. For certain KKR Prisma funds managed as part of a single investor's mandate the length of time to redeem an investment may vary and will depend on the liquidity constraints of each KKR Prisma fund's underlying portfolio. Factors which could result in investors leaving our funds include changes in interest rates that make other investments more attractive, changes in investor perception regarding our focus or alignment of interest, unhappiness with a fund's performance or investment strategy, changes in our reputation, departures or changes in responsibilities of key investment professionals, performance and liquidity needs of fund investors. In a declining market or period of economic disruption or uncertainty, the pace of redemptions and consequent reduction in our AUM could accelerate. The decrease in revenues that would result from significant redemptions from our funds of funds or other similar investment vehicles could have a material adverse effect on our business, revenues, net income and cash flows.

A portion of assets invested in our fund of hedge funds strategy are managed through separately managed accounts or entities structured for investment by one investor or related investors whereby we earn management and incentive fees, and we intend to continue to seek additional separately managed account or single entity mandates. The investment management agreements we enter into in connection with managing separately managed accounts or entities on behalf of certain clients may be terminated by such clients on as little as 30 days' prior written notice, or less in certain prescribed circumstances. In addition, the boards of directors of the certain funds we manage could terminate our advisory engagement of those companies, on as little as 30 days' prior written notice. Similarly, we provide subadvisory services to other investment advisors and managers. Such investment advisors and managers could terminate our subadvisory agreements on as little as 30 days' prior written notice. In the case of any such terminations, the management and incentive fees we earn in connection with managing such account or company would immediately cease, which could result in a significant adverse impact on our revenues.

A fund of funds is subject to risks related to the limited rights it has to withdraw, transfer or otherwise liquidate its investments from the underlying hedge funds or other funds in which it invests. Hedge funds, including those in which our fund of funds are invested and the hedge funds we offer to our fund investors, 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, withdrawal 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.

Moreover, these risks may be exacerbated for funds of funds such as those we manage. For example, if one of our funds of funds were to invest a significant portion of its assets in two or more hedge funds that each had illiquid positions in the same issuer, the illiquidity risk for our funds of hedge funds would be compounded. In 2008 many hedge funds experienced significant declines in value. In many cases, these declines in value were both provoked and exacerbated by margin calls and forced selling of assets, often at distressed prices. Moreover, certain funds of funds were invested in hedge funds that halted redemptions in the face of illiquidity and other issues, which precluded those

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funds of funds from receiving their capital back on request. There can be no guarantee that such a situation would not recur, particularly in times of market distress.

Terms of the governing documents in may also limit a fund of funds' ability to withdraw, transfer or otherwise liquidate their investments in underlying portfolio funds. Under the terms of the governing documents of the relevant portfolio funds or other investments, the ability of a fund of funds or account to redeem any amount invested therein may be subject to certain restrictions and conditions, including restrictions on the redemption of capital for an initial period, restrictions on the amount of redemptions and the frequency with which redemptions can be made, and investment minimums that must be maintained. Additionally, portfolio funds typically reserve the right to reduce ("gate") or suspend redemptions, to set aside ("side pocket") capital that cannot be redeemed for so long as an event or circumstance has not occurred or ceased to exist, respectively, and to satisfy redemptions by making distributions in-kind, under certain circumstances. The ability of our funds of funds or accounts to redeem portfolio fund interests may be adversely affected to varying degrees by such restrictions depending on, among other things, the length of any restricted periods imposed by the portfolio fund, the amount and timing of a requested redemption in relation to the time remaining of any restricted periods imposed by portfolio funds, the aggregate amount of redemption requests, the next regularly scheduled redemption dates of such portfolio funds, the imposition of "gates" or suspensions, the use of "side pockets", the decision by a portfolio fund to satisfy redemptions in-kind, and the satisfaction of other conditions.

In addition, certain funds in our Public Markets business are registered under the Investment Company Act as management investment companies. These funds and KKR Asset Management LLC, which serves as their investment adviser (or, in the case of the business development company, as its sub-adviser), are subject to the Investment Company Act and the rules thereunder. One of these funds is a New York Stock Exchange-listed closed-end fund. In addition, the management fees we are paid for managing the investment company will generally be subject to contractual rights the company's board of directors (or, in the case of the business development company we manage, the investment adviser) has to terminate our management of an account on as short as 60 days' prior notice. Termination of these agreements would reduce the fees we earn from the relevant funds, which could have a material adverse effect on our results of operations.

Investments by our fund of funds, long/short equity strategy, long/short credit 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 and long/short credit strategies are 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 investment strategies of a hedge fund or fund of funds, 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 theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

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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.

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 and funds of funds are subject to risks due to potential illiquidity of assets. Hedge funds and funds of funds, directly or indirectly, may make investments in restricted or illiquid 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 registration requirements, 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 or funds of 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 hedge funds or funds of funds to sell assets on unfavorable terms.

Hedge fund investments are also subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most

U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing "daily price fluctuation limits" or "daily limits," the existence of which may reduce liquidity or effectively curtail trading in particular markets. Our fund of hedge fund business may also be subject to and may subject our firm to extensive regulations, including those of the Commodity Futures Trading Commission and the regulations described under " 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".

Risks Related to Our Common Units

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; (ii) that the listed company have a compensation committee that is composed entirely of independent directors and (iii) that the compensation committee be required to consider certain independence factors when engaging compensation consultants, legal counsel and other committee advisers. In addition, as a limited partnership, we are not required to obtain unitholder approval for (a) the issuance of common units to certain related parties where the number of common units exceeds one percent of the outstanding common units or voting power, (b) the issuance of common units that equals or exceeds 20% of the outstanding common units or voting power, or (c) a change of control transaction, and 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 18, 2014, KKR Holdings owns 404,369,018 KKR Group Partnership Units, and our senior 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.

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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 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.

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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 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.

Our Managing Partner may exercise its right to call and purchase common units as provided in our limited partnership agreement or assign this right to one of its affiliates or to us. Our Managing Partner may use its own discretion, free of fiduciary duty restrictions, in determining whether to exercise this right. As a result, a unitholder may have his common units purchased from him at an undesirable time or price. For additional information, see our limited partnership agreement filed as an exhibit to this annual report.

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, could be subject to wide fluctuations and could decline significantly in the future. 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. 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.

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 and acquisitions.

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 18, 2014, we have 288,143,327 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 18, 2014, KKR Holdings owns 404,369,018 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 2013, 28,952,216 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 exchanged and 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 KKR & Co. L.P. Equity Incentive Plan". 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. Similarly, the partnership agreements of the KKR Group Partnerships authorize the general partners of the KKR Group Partnerships to issue an unlimited number of additional securities of the KKR Group Partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the KKR Group Partnerships Units, and which may be exchangeable for KKR Group Partnership Units. In addition, we have and may continue to issue and sell common units of KKR & Co. L.P. to generate cash proceeds to pay withholding taxes, social benefit payments or similar payments payable by us in respect of awards granted pursuant to the Equity Incentive Plan or the amount of cash delivered in respect of awards granted pursuant to the Equity Incentive Plan that are settled in cash instead of common units.

We have used and in the future may continue to use common units as consideration in acquisitions and strategic investments. In connection with the proposed merger with KFN and the acquisition of Avoca, we expect to exchange or issue a significant number of common units. In addition, in connection with the KKR Prisma and Nephila transactions, we may make certain contingent payments in the form of common units. If our valuations of these transactions are not accurate or if the value of these acquisitions and investments is not realized, our distributions per common unit and the value of our common units may decline. As of February 18, 2014, (i) in connection with KKR's pending merger with KFN, which is subject to closing, KKR would issue approximately 104.5 million common units of KKR & Co. L.P. if such merger were to be completed, (ii) in connection with KKR's acquisition of Avoca, KKR is obligated to issue up to 5.0 million common units (a portion of which is issuable upon the election of the holders of certain convertible securities issued upon consummation of such acquisition, and a portion of which is subject to three-year, ratable annual vesting and a substantially concurrent three-year restriction on transfer, subject to accelerated vesting and forfeiture), (iii) in connection with KKR's acquisitions and investments, KKR may elect to issue common units for a portion of the contingent payments that KKR may become obligated to deliver in the future, and (iv) KKR is obligated to issue common units upon the vesting of equity awards issued under KKR's Equity Incentive Plan. In addition, as of February 18, 2014, KKR may issue (i) up to 1.7 million common units as registered on its registration statement on Form S-3 (no. 333-187894) in respect of withholding taxes and cash-settled equity awards as described therein and elsewhere in this report;

(ii) up to 1.4 million common units under the Equity Incentive Plan that were not registered on KKR's registration statement on Form S-8 (no. 333-171601), and (iii) up to 404.4 million common units pursuant to KKR's exchange agreement with KKR Holdings and the other parties thereto.

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, cash expenditures, including those relating to compensation, 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 or as broker-dealers have fiduciary and/or contractual obligations to our fund investors or other third parties. Such obligations may cause such affiliates to regularly take actions with respect to the allocation of investments among our investment funds (including funds that have different fee structures), the purchase or sale of investments in our investment funds, the structuring of investment transactions for those funds and the advice and services we provide that comply with these fiduciary and contractual obligations but 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 certain of our principals indirectly hold their KKR Group Partnership Units through KKR Holdings L.P. and its subsidiaries, which 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 or transactions, declaring distributions and other matters; without limiting the foregoing, certain investments made by us or through our funds may be determined to be held through KKR Management Holdings L.P., which would result in less taxation to our principals who are limited partners in KKR Holdings as compared to our unitholders;

- 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;

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- 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. Neither our limited partnership agreement nor any of the other agreements, contracts and arrangements between us on the one hand, and our Managing Partner and its affiliates on the other, are or will be the result of arm's-length negotiations. 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 and its affiliates will have no obligation to permit us to use any facilities or assets of our Managing Partner and its affiliates, except as may be provided in contracts entered into specifically dealing with such use. There will not be any obligation of our Managing Partner and its affiliates to enter into any contracts of this kind.

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

- 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;
- 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, as the designated members of our Managing Partner, represent a majority of the total voting power of the outstanding Class A shares, when they act together. However, neither of them controls the voting of the Class A shares, when acting alone.

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

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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 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.

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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 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 its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis.

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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. However, our subsidiaries have a significant number of investment securities, and 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 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 of our investments or otherwise conduct our business in a manner that does not subject us 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."

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, gain from the sale or other disposition of real property, real property rents, income and gains from energy and oil and gas investments 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." 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.

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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."

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 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

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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 at regular rates on all of their taxable income as well as 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, U.S. withholding agents and 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 after June 30, 2014, be subject to a 30% United States withholding tax on certain U.S. payments (and beginning in 2017, 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 after June 30, 2014, be subject to a 30% U.S. withholding tax on certain U.S. payments (and beginning in 2017, a 30% withholding tax on gross proceeds from the 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 fund investors to the IRS. 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 gross income subject to tax. In addition, all or a portion of gain on the sale of a CFC may be taxable at ordinary income rates. Further, with respect to gain on the sale of and excess distributions from a PFIC for which an election for current inclusions is not made, such income would be taxable at ordinary income rates and be subject to an additional tax charge equivalent to an interest charge on the deferral of income inclusions from that PFIC.

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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 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, real estate assets and energy assets, in which case some portion of our 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 (potentially reduced under an applicable treaty) on their actual or deemed distributions of such income. In addition, distributions to non-U.S. unitholders that are attributable to profits on 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 (under an applicable treaty of the Internal Revenue Code) 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 our ownership of real estate assets and energy assets and incurrence of acquisition indebtedness we will derive income that constitutes UBTI. Consequently, a holder of common units that is a tax-exempt entity (including an individual retirement account, or IRA, or a 401(k) plan participant) will likely be subject to unrelated business income tax to the extent that its allocable share of our income consists of UBTI and thus may be subject to U.S. federal income taxes and U.S. federal income tax reporting with respect to such income. 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 have adopted 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 are determined and apportioned among unitholders 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.

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. 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 energy may expose us to increased risks and liabilities and may expose our unitholders to adverse tax consequences."

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Certain U.S. holders of common units are subject to additional tax on "net investment income".

U.S. holders that are individuals, estates or trusts are subject to a Medicare tax of 3.8% on "net investment income" (or undistributed "net investment income," in the case of estates and trusts) for each taxable year, with such tax applying to the lesser of such income or the excess of such person's adjusted gross income (with certain adjustments) over a specified amount. Net investment income includes net income from interest, dividends, annuities, royalties and rents and net gain attributable to the disposition of investment property. It is anticipated that net income and gain attributable to an investment in our common units will be included in a U.S. holder's "net investment income" subject to this Medicare tax.

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 15 "Commitments and Contingencies" of our financial statements included elsewhere in this report is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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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 began trading on the New York Stock Exchange ("NYSE") on July 15, 2010 and are traded under the symbol "KKR." 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			
	2013		2012	
	High	Low	High	Low
First Quarter	$ 20.00	$ 15.38	$ 15.20	$ 12.74
Second Quarter	$ 21.60	$ 17.27	$ 15.50	$ 11.03
Third Quarter	$ 21.78	$ 18.74	$ 15.68	$ 12.74
Fourth Quarter	$ 25.87	$ 19.68	$ 15.49	$ 13.35

The number of holders of record of our common units as of February 18, 2014 was 24. 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 during fiscal 2012 and 2013:

Payment Date	Record Date	Distribution per unit
March 6, 2012	February 21, 2012	$ 0.32
May 21, 2012	May 7, 2012	$ 0.15
August 21, 2012	August 6, 2012	$ 0.13
November 20, 2012	November 5, 2012	$ 0.24
March 5, 2013	February 19, 2013	$ 0.70
May 21, 2013	May 6, 2013	$ 0.27
August 20, 2013	August 5, 2013	$ 0.42
November 19, 2013	November 4, 2013	$ 0.23

We have declared a distribution of $0.48 per common unit payable on March 4, 2014 to unitholders of record as of the close of business on February 18, 2014.

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 and 40% of the net cash income from our realized principal investments, in each case 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 obligations. Subject to the completion of the KFN merger, we expect to maintain the same distribution policy except we intend to make quarterly cash distributions of 100% of KFN's realized earnings and 40% of the net cash income from our other realized principal investments. For purposes of our distribution policy, 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) a percentage of net realized principal investment income as described above. This amount is expected to be reduced by (i) corporate and applicable local taxes, if any, (ii) non-controlling interests, and (iii) amounts determined by us to be necessary or appropriate for the conduct of our business and other matters as discussed above.

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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. We believe distributing a meaningful portion of our net realized principal investment income allows the holders of our common units to participate in the returns generated on our balance sheet assets, while still allowing us to retain significant capital to invest in our business.

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 would make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such tax liabilities, which would generally 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.) However, in light of our current distribution policy, we expect that the KKR Group Partnerships will not make tax distributions, because our distributions paid under our current policy 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 and from time to time. We are not currently restricted by any contract from making distributions to our unitholders, although

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certain of our subsidiaries are bound by credit agreements that contain certain restricted payment and/or other covenants, which may have the effect 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 2013

No purchases of our common units were made by us or on our behalf in the fourth quarter of the year ended December 31, 2013. During the fourth quarter of 2013, no KKR Group Partnership Units were exchanged by KKR Holdings or our principals for our common units.

Unregistered Sale of Equity Securities

A subsidiary of KKR & Co. L.P. agreed to deliver an aggregate of up to 5.0 million common units of KKR & Co. L.P. in reliance on Section 4(a)(2) of the Securities Act of 1933, and/or Regulation S promulgated thereunder, in partial consideration for the sellers' equity interests in Avoca and its subsidiaries. Subsequent to the completed acquisition of Avoca, a portion will be issuable upon the election of the holders of certain convertible securities of one of our subsidiaries that was issued upon consummation of the acquisition, and a portion will be issuable subject to three-year, ratable annual vesting and a substantially concurrent three-year restriction on transfer, subject to accelerated vesting and forfeiture upon the occurrence of certain customary events. KKR & Co. L.P. also entered into a registration rights agreement with the selling shareholders of Avoca.

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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, 2013, 2012, 2011, 2010 and 2009. We derived the selected historical consolidated financial data as of December 31, 2013 and 2012 and for the years ending December 31, 2013, 2012 and 2011 from the audited consolidated financial statements included elsewhere in this report. We derived the selected historical consolidated combined financial data as of December 31, 2011, 2010 and 2009 and for the years ended December 31, 2010 and 2009 from our audited consolidated and 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 financial statements and related notes included elsewhere in this report.

	Year Ended December 31,				
	2013	2012	2011	2010	2009(1)
	(all dollars are in thousands, except unit and per unit data)				
Statement of Operations Data:					
Fees	$ 762,546	$ 568,442	$ 723,620	$ 435,386	$ 331,271
Less: Total Expenses	1,767,138	1,598,788	1,214,005	1,762,663	1,195,710
Total Investment Income (Loss)	8,896,746	9,101,995	1,456,116	9,179,108	7,753,808
Income (Loss) Before Taxes	7,892,154	8,071,649	965,731	7,851,831	6,889,369
Income Taxes	37,926	43,405	89,245	75,360	36,998
Net Income (Loss)	7,854,228	8,028,244	876,486	7,776,471	6,852,371
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	62,255	34,963	4,318		
Net Income (Loss) Attributable to Noncontrolling Interests	7,100,747	7,432,445	870,247	7,443,293	6,002,686
Net Income (Loss) Attributable to KKR & Co. L.P.(2)	$ 691,226	$ 560,836	$ 1,921	$ 333,178	$ 849,685

	October 1, 2009 through December 31, 2009
Net Loss Attributable to KKR & Co. L.P.	$ (78,221)

Distributions Declared Per KKR & Co. L.P. Common Unit	$ 1.40	$ 1.22	$ 0.74	$ 0.60	$ 0.08
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit					
Basic	$ 2.51	$ 2.35	$ 0.01	$ 1.62	$ (0.38)
Diluted	$ 2.30	$ 2.21	$ 0.01	$ 1.62	$ (0.38)
Weighted Average Common Units Outstanding					
Basic	274,910,628	238,503,257	220,235,469	206,031,682	204,902,226
Diluted	300,254,090	254,093,160	222,519,174	206,039,244	204,902,226

Statement of Financial Condition Data (period end):					
Total Assets	$ 51,427,201	$ 44,426,353	$ 40,377,645	$ 38,391,157	$ 30,221,111
Total Liabilities	$ 4,842,383	$ 3,020,899	$ 2,692,995	$ 2,391,115	$ 2,859,630
Redeemable Noncontrolling Interests	$ 627,807	$ 462,564	$ 275,507	$	$
Noncontrolling Interests	$ 43,235,001	$ 38,938,531	$ 36,080,445	$ 34,673,549	$ 26,347,632
Total KKR & Co. L.P. Partners' Capital(3)	$ 2,722,010	$ 2,004,359	$ 1,328,698	$ 1,326,493	$ 1,013,849

(1) The financial information reported for periods prior to October 1, 2009 does not give effect to the KPE Transaction.

(2) Subsequent to the KPE Transaction, 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 business. Net income (loss) that is allocable to our principals' interest in our 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. (41.6% interest in the KKR Group Partnerships as of December 31, 2013) 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' 58.4% interest in the KKR Group Partnerships as of December 31, 2013 is reflected as noncontrolling interests and is not included in total KKR & Co. L.P. partners' capital.

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 financial statements of KKR and the related notes included elsewhere in this report. The historical consolidated 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 $94.3 billion in AUM as of December 31, 2013 and a 37-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 fund 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 fund investors and provides capital markets services to our firm, our portfolio companies and third parties. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 230 private equity investments in portfolio companies with a total transaction value in excess of $485 billion. In recent years, we have grown our firm by expanding our geographical presence and building businesses in new areas, such as credit, special situations, equity strategies, hedge fund solutions, capital markets, infrastructure, energy 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 meeting the needs of our existing fund investors and in developing relationships with new investors in our funds.

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 in our funds, 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 fund investors and from other principal investments and from the carried interest we receive from our funds and certain of our other investment vehicles. A carried interest entitles the sponsor of a fund to a specified percentage of investment gains that are generated on third-party capital that is invested.

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

Business Segments

Private Markets

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

Public Markets

We operate our credit and hedge funds businesses through the Public Markets segment. Our credit business is managed by KKR Asset Management, LLC, or KAM, an SEC registered investment adviser. KAM advises funds, structured finance vehicles, separately managed accounts, BDCs and other investment companies registered under the Investment Company Act that invest capital in (i) leveraged credit strategies, such as leveraged loans and high yield bonds and (ii) alternative credit strategies such as mezzanine investments, special situations investments, direct lending investments and long/short credit. In addition, on February 19, 2014, KKR acquired Avoca, a leading European credit investment manager with approximately $8.4 billion in assets under management as of December 31, 2013.

In addition to our credit business, we have a hedge funds business that offers a variety of investment strategies and focuses on providing investment solutions for institutional investors. These strategies are managed by KAM and Prisma Capital Partners LP, or KKR Prisma, an SEC registered investment adviser. This business offers customized hedge fund portfolios, hedge fund-of-fund solutions and a long/short equity strategy. In addition, on January 23, 2013, we acquired a 24.9% interest in Nephila, an investment manager focused on investing in natural catastrophe and weather risk.

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 employs approximately 45 executives and supports our firm, our portfolio companies and third-party clients by developing and implementing both traditional and non-traditional capital solutions for investments or companies seeking financing. These services include arranging debt and equity financing for transactions, placing and underwriting securities offerings and providing other types of capital markets services. When we underwrite an offering of securities or a loan on a firm commitment basis, we commit to buy and sell an issue of securities or indebtedness and generate revenue by purchasing the securities or indebtedness at a discount or for a fee. When we act in an agency capacity, we generate revenue for arranging financing or placing securities or debt with capital markets investors. 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. Our third party capital markets activities are generally carried out through Merchant Capital Solutions LLC, a joint venture with two other unaffiliated partners and non-bank financial companies, or NBFCs, in India.

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 fund investors and other stakeholders. The majority of our

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principal assets consist of general partner interests in KKR investment funds, limited partner interests in certain KKR private equity funds, co-investments in certain portfolio companies of such private equity funds, and other assets we acquired in the KPE Transaction, with the remaining holdings consisting of assets held in the development of our business, including seed capital for new strategies and other opportunistic investments. We believe that the market experience and skills of professionals in our capital markets business and the investment expertise of professionals in our Private Markets and Public Markets segments will allow us to continue to grow and diversify this asset base over time.

Business Environment

As a global investment firm, we are affected by financial and economic conditions in North America, Europe, Asia-Pacific and elsewhere in the world. Global and regional economic conditions have a substantial impact on our financial condition and results of operations, impacting both the success of the investments we make as well as our ability to exit these investments profitably and to make new investments. While certain economies experienced moderate expansion in 2013, the current global economic environment remains uncertain. Within Europe, there is a divergence between stronger growth in Germany, and weaker or negative growth in other countries. Overall, Europe has experienced negative growth trends as sovereign debt concerns have affected consumer and business behavior which has pushed the region into recession. Fiscal deficits and the levels of government debt in a number of European countries have led to substantial increases in sovereign borrowing costs, stresses in the European banking system, and associated reductions in the availability of credit and economic activity in the euro area. Through the course of 2013, fiscal restraint, deficit reductions, and central bank support have alleviated some of the stresses and borrowing costs have receded. However, these issues may resurface if there is not continual progress in structural reforms, fiscal consolidation, and other matters. Ongoing austerity and deleveraging in the developed world are likely to persist in the near-term, but at a slower pace. Importantly, periods of deleveraging tend to be accompanied by increased volatility in the global capital markets, which may pose downside risk to the economic outlook. While a number of policy actions have been taken which seek to address the European sovereign debt crisis, if one or more Eurozone members were to leave the Eurozone, the functioning of Europe's single market currency could be undermined which would cause a deeper and more damaging impact on the global economy. Growth in Asian economies is mixed. For example, the rate of real gross domestic product growth in China remains lower compared to the pace of growth in prior years. In addition, the new Chinese leadership has signaled that its reform agenda is more important than growth, and regulatory and structural adjustments could further impair growth. The U.S. economy grew moderately in 2013, but continues to be restrained by various headwinds. For example, while unemployment has declined, the unemployment rate remains elevated and consumer and business spending has been cautious. In the wake of recent fiscal tightening in the U.S., including the temporary U.S. government shutdown, U.S. consumers could further retrench spending, and while central banks around the world adopt quantitative easing, the U.S. dollar could continue to appreciate, which could impact U.S. corporate profitability as well as curtail U.S. growth. The U.S. Federal Reserve has also announced a shift in monetary policy by initiating the tapering of quantitative easing. Uncertainty surrounding the pace and timing of tapering could cause interest rates to rise which could affect our investments.

In addition, foreign exchange rates can materially impact the valuations of our investments that are denominated in currencies other than the U.S. dollar, and rising U.S. interest rates may negatively impact certain foreign currencies that depend upon foreign capital flows. For example, the Japanese yen, Indian rupee and Australian dollar depreciated 17.6%, 11.1% and 14.2% against the U.S. dollar, respectively in 2013. Furthermore, higher interest rates and weaker currencies in some emerging market currencies may increase country default risk. Within credit markets, spreads have tightened significantly while issuance has reached record levels in 2013. If interest rates rise sharply, or growth remains weak, default risk may rise. Moreover, while our Private Markets business invested or committed over

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$8.5 billion in new transaction activity during 2013 through February 18, 2014, levels of transaction activity are generally volatile, and reduced levels of transaction activity tend to result in a reduced amount of transaction fees and potential future investment gains.

In addition to economic conditions, global equity markets also 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. For example, during the first quarter of 2014, we have been able to complete an IPO for Santander Consumer USA (NYSE: SC) and complete secondary sales of common shares of Kion Group AG (XETRA: KGX), ProSiebenSat.1 Media AG (XETRA: PSM) and NXP Semiconductors N.V. (NASDAQ: NXPI).

Notwithstanding the trends described above, global equity markets rose during the year ended December 31, 2013, with the S&P 500 Index up 32.4% and the MSCI World Index up 27.4%. Equity market volatility declined during the year ended December 31, 2013 as evidenced by the Chicago Board Options Exchange Market Volatility Index, or the VIX, a measure of volatility, beginning the year at 18.0 and ending at 13.7 on December 31, 2013. The below-investment grade credit markets trailed the equity markets, with the S&P/LSTA Leveraged Loan Index up 5.3% and the BoAML HY Master II Index up 7.4% during the year ended December 31, 2013, 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 and other 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, as was the case in 2013, 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. These impacts could be substantial depending upon the magnitude of the change in interest rates. 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. Finally, low interest rates related to monetary stimulus and economic stagnation may also negatively impact expected returns on all investments, as the demand for relatively higher return assets increases and supply decreases.

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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, as well as transaction activity in our Private Markets segment and to a lesser extent, Public Markets segment, impact both the frequency and size of fees generated by this segment.

Finally, conditions in commodity markets impact the performance of our portfolio companies in a variety of ways, including through the 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, which among other things, could be driven by economic, monetary, political or weather related factors. 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 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 or suffer from a decline in commodity prices. In particular, our Private Markets portfolio contains several real asset investments whose values are influenced by the price of natural gas and oil. While near-term natural gas and oil prices rose during the year ended December 31, 2013, long-term pricing of such real assets was by comparison more stable. The valuations of these real asset investments generally increase or decrease with the increase or decrease, respectively, of such long-term commodities prices as well as individual company performance. Furthermore, as we make additional investments in oil and gas companies and assets, the value of our portfolio may become increasingly sensitive to oil and gas prices.

Basis of Accounting

The consolidated financial statements, referred to hereafter as our "financial statements," include the accounts of KKR's management and capital markets companies, the general partners of certain unconsolidated funds, general partners of consolidated funds and their respective consolidated funds and certain other entities.

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 and vehicles, we generally have operational discretion and control, and fund investors have no substantive rights to impact ongoing governance and operating activities of the fund, including the ability to remove the general partner, also known as kick-out rights. As of December 31, 2013, our Private Markets segment included 21 consolidated investment funds and 17 unconsolidated co-investment vehicles. Our Public Markets segment included 11 consolidated investment vehicles and 53 unconsolidated vehicles.

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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. 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 on the consolidated statements of financial condition and net income attributable to noncontrolling interests on the consolidated 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) transaction fees earned in connection with successful investment transactions and from capital markets activities, (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, (iii) monitoring fees from providing services to portfolio companies, and (iv) consulting and other fees earned by consolidated entities from providing advisory and other services. These fees are based on the contractual terms of the governing agreements and are recognized when earned, which coincides with the period during which the related services are performed and in the case of transaction fees, upon closing of the transaction. Monitoring fees may provide for a termination payment following an initial public offering or change of control. These termination payments are recognized in the period when the related transaction closes.

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

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

Expenses

Compensation and Benefits

Compensation and benefits expense includes cash compensation consisting of salaries, bonuses, and benefits, as well as equity-based compensation 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 borne by KKR and certain consolidated entities and result in customary compensation and benefits expense, cash bonuses that are paid to certain of KKR's principals are currently borne by KKR Holdings. These bonuses are

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funded with distributions that KKR Holdings receives on KKR Group Partnership Units held by KKR Holdings but are not then passed on to holders of unvested units of KKR Holdings. Because KKR principals are not entitled to receive distributions on units that are unvested, any amounts allocated to principals in excess of a principal's vested equity interests are reflected as employee compensation and benefits expense. These compensation charges are recorded based on the unvested portion of quarterly earnings distributions received by KKR Holdings at the time of the distribution.

With respect to KKR's active and future funds and co-investment vehicles that provide for carried interest, KKR allocates to its principals and other professionals a portion of the carried interest earned as part of its carry pool. KKR currently allocates approximately 40% of the carry it earns from these funds and vehicles to its carry pool. For the purpose of the discussion under " Consolidated Results of Operations," these amounts are accounted for as compensatory profit-sharing arrangements in conjunction with the related carried interest income and recorded as compensation and benefits expense for KKR employees and general, administrative and other expense for certain non-employee consultants and service providers in the consolidated statements of operations. However, for the purposes of the discussion under " Segment Analysis," carry pool allocations are recorded as a component of Investment Income (Loss).

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, changes in fair value of contingent consideration 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 Measurements."

Dividend Income

Dividend income consists primarily of distributions that investment funds receive from portfolio companies in which they invest. Dividend income is recognized 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.

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Interest Income

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

Interest Expense

Interest expense is incurred from debt issued by KKR, credit facilities entered into by KKR, and debt outstanding at our consolidated funds entered into with the objective of enhancing returns or managing cash flow, which are generally not direct obligations of the general partners of our consolidated 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 also generate certain interest income to our unitholders and interest deductions to KKR Management Holdings Corp., as a result of a 2011 recapitalization of KKR Management Holdings Corp.

We use the asset and 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 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.

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Segment Operating and Performance Measures

The segment key performance measures that follow are used by management in making operating and resource deployment decisions as well as assessing the overall performance of each of KKR's reportable business segments. 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 L.P. and as such represent the business in total. In addition, KKR's reportable segments are presented without giving effect to the consolidation of the funds that KKR manages.

Certain of the following financial measures in this report 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 unitholders 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 if available. 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" and later in this report under " Segment Book Value."

Fee Related Earnings ("FRE")

Fee related earnings is comprised of segment fees less segment expenses (other than certain compensation and general and administrative expenses incurred in the generation of net realized principal investment income). This measure 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 unitholders 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 ("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 unitholders 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, management fee refunds, interest expense and certain compensation and general and administrative expenses incurred in the generation of net realized principal investment income; 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.

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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 unitholders as it provides additional insight into KKR's capital raising activities and the overall activity in its investment funds. 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 credit 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 any 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 represents only those assets under management from which KKR receives fees. We believe this measure is useful to unitholders 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, for only those funds 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 unitholders 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 carried interest and (ii) capital invested by KKR's investment funds and vehicles.

Gross Dollars Invested

Gross dollars invested is the aggregate amount of capital that has been invested by all of our Public Markets investment vehicles in our private credit non-liquid strategies and is used as a measure of investment activity for our Public Markets in a given period. We believe this measure is useful to unitholders as it provides additional insight into our Public Markets investment of capital across its private credit non-liquid strategies for all the investment vehicles which it manages. Such amounts include: (i) capital invested by fund investors and co-investors with respect to which our Public Markets Segment is entitled to a fee or carried interest and (ii) internal and proprietary capital invested by our Public Markets investment funds and vehicles.

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Syndicated Capital

Syndicated capital is generally the aggregate amount of capital in transactions originated by KKR investment funds and carry-yielding co-investment vehicles, which has been distributed to third parties in exchange for a fee. It does not include (i) capital invested in such transactions by KKR investment funds and carry-yielding co-investment vehicles, which is instead reported in committed dollars invested and (ii) debt capital that is arranged as part of the acquisition financing of transactions originated by KKR investment funds. Syndicated capital is used as a measure of investment activity for KKR and its business segments during a given period, and we believe that this measure is useful to unitholders as it provides additional insight into levels of syndication activity in KKR's Capital Markets and Principal Activities segment and across its investment platform.

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 unitholders 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 unitholders 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.

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 unitholders as it provides additional insight into the assets and liabilities of KKR excluding the assets and liabilities that are allocated to noncontrolling interest holders in our consolidated funds. Book value differs from KKR & Co. L.P. partners' capital on a GAAP basis primarily as a result of the exclusion of ownership interests attributable to KKR Holdings L.P.

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 unitholders 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 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, 2013, we had cash and short-term investments on a segment basis of approximately $2.2 billion. Excluding approximately $0.9 billion of liquid short-term investments, cash and short-term investments may be reconciled to cash and cash equivalents of approximately $1.3 billion as of December 31, 2013.

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Consolidated Results of Operations

The following is a discussion of our consolidated results of operations for the years ended December 31, 2013, 2012 and 2011. You should read this discussion in conjunction with the consolidated financial statements and related notes included elsewhere in this report. For a more detailed discussion of the factors that affected the results of operations of our three business segments in these periods, see " Segment Analysis."

The following tables set forth information regarding our results of operations for the years ended December 31, 2013, 2012 and 2011.

	Year Ended December 31,		
	2013	2012	2011
	($ in thousands)		
Revenues			
Fees	$ 762,546	$ 568,442	$ 723,620
Expenses			
Compensation and Benefits	1,266,592	1,280,854	868,749
Occupancy and Related Charges	61,720	58,205	54,282
General, Administrative and Other	438,826	259,729	290,974
Total Expenses	1,767,138	1,598,788	1,214,005
Investment Income (Loss)			
Net Gains (Losses) from Investment Activities	7,826,082	7,871,673	981,858
Dividend Income	695,521	940,888	225,073
Interest Income	474,759	358,598	321,943
Interest Expense	(99,616)	(69,164)	(72,758)
Total Investment Income (Loss)	8,896,746	9,101,995	1,456,116
Income (Loss) Before Taxes	7,892,154	8,071,649	965,731
Income Taxes	37,926	43,405	89,245
Net Income (Loss)	7,854,228	8,028,244	876,486
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	62,255	34,963	4,318
Net Income (Loss) Attributable to Noncontrolling Interests	7,100,747	7,432,445	870,247
Net Income (Loss) Attributable to KKR & Co. L.P.	$ 691,226	$ 560,836	$ 1,921

Year ended December 31, 2013 compared to year ended December 31, 2012

Fees

Fees were $762.5 million for the year ended December 31, 2013, an increase of $194.1 million, compared to fees of $568.4 million for the year ended December 31, 2012. The net increase was primarily due to an increase in management fees of $79.8 million, an increase in transaction fees of $50.3 million and an increase in incentive fees of $24.8 million. The increase in management fees was primarily the result of the acquisition of Prisma as well as new capital raised primarily in our Public Markets segment. The increase in transaction fees was primarily driven by an increase in the size and number of fee-generating investments completed during the year ended December 31, 2013 in our Private Markets segment. During the year ended December 31, 2013, there were 33 transaction fee-generating investments with a total combined transaction value of approximately $15.0 billion compared to 17 transaction fee-generating investments with a total combined transaction value of approximately $6.5 billion during the year ended December 31, 2012. Transaction fees vary by

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investment based upon a number of factors, the most significant of which are transaction size, the particular discussions as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The increase in incentive fees is due primarily to an increase in incentive fees received from Prisma, which became part of KKR during the three months ended December 31, 2012, partially offset by a decrease in incentive fees from KFN as a result of its investment performance. KFN has already realized a substantial majority of the unrealized gains that were embedded in its bank loan and high yield portfolio, which have contributed in the past to its investment performance and KKR's receipt of incentive fees from KFN. Incentive fees from KFN are determined quarterly, while other incentive fees are typically determined for the twelve-month periods ending in either the second and fourth quarters of the calendar year. Due to the scheduled payments of such fees, incentive fees can generally be expected to be larger in the fourth quarter than in the second quarter assuming performance thresholds have been met. Whether an incentive fee from KFN and other KKR vehicles is payable in any given period, and the amount of an incentive fee payment, if any, depends on the investment performance of the vehicle and as a result may vary significantly from period to period.

Expenses

Expenses were $1,767.1 million for the year ended December 31, 2013, an increase of $168.3 million, compared to $1,598.8 million for the year ended December 31, 2012. The increase was primarily due to an increase in general, administrative and other expenses of $179.1 million, partially offset by a decrease in compensation and benefits expenses of $14.3 million. The increase in other general, administrative and other expenses was primarily due to an increase in professional service fees in connection with the growth of our business, the acquisition of Prisma as well as a $9.7 million one-time expense incurred in our Public Markets business in connection with the launch of a closed-end fund during the year ended December 31, 2013. The net decrease in compensation and benefits is due primarily to (i) lower equity-based compensation reflecting fewer KKR Holdings units vesting for expense recognition purposes under the graded attribution method of expense recognition, partially offset by (ii) an increase in cash-based compensation as a result of the Prisma acquisition, increased headcount and an increase in fees and (iii) higher equity-based compensation relating to additional equity grants under the Equity Incentive Plan.

Net Gains (Losses) from Investment Activities

Net gains from investment activities were $7.8 billion for the year ended December 31, 2013, essentially flat compared to $7.9 billion for the year ended December 31, 2012. The following is a summary of net gains (losses) from investment activities:

	Year Ended December 31,	
	2013	**2012**
	($ in thousands)	
Private Equity Investments	$ 7,716,772	$ 7,936,155
Other Net Gains (Losses) from Investment Activities	109,310	(64,482)
Net Gains (Losses) from Investment Activities	$ 7,826,082	$ 7,871,673

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

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

	Year Ended December 31,	
	2013	2012
	($ in thousands)	
Realized Gains	$ 4,712,997	$ 4,954,124
Unrealized Losses from Sales of Investments and Realization of Gains(a)	(4,155,261)	(4,688,754)
Realized Losses	(1,048,778)	(6,463)
Unrealized Gains from Sales of Investments and Realization of Losses(b)	1,058,710	6,463
Unrealized Gains from Changes in Fair Value	9,361,938	11,168,416
Unrealized Losses from Changes in Fair Value	(2,212,834)	(3,497,631)
Net Gains (Losses) from Investment Activities Private Equity Investments	$ 7,716,772	$ 7,936,155

(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.

The most significant driver of net gains (losses) from investment activities for the year ended December 31, 2013 is related to unrealized gains and losses from changes in fair value in our private equity investments. The net unrealized investment gains in our private equity portfolio were driven primarily by net unrealized gains of $3.0 billion, $1.3 billion and $1.1 billion in our 2006 Fund, European Fund II and European Fund III, respectively. Approximately 46% of the net change in value for the year ended December 31, 2013 was attributable to changes in share prices of various publicly-listed investments, most notably increases in HCA, Inc. (NYSE: HCA), ProSiebenSat.1 Media AG and NXP Semiconductors N.V., partially offset by decreases relating to Bharti Infratel Ltd. (BOM: 534816) and China Outfitters Holdings (HK: 1146). Our private portfolio contributed the remainder of the change in value, with the largest contributors being unrealized gains relating to Alliance Boots GmbH (healthcare sector), Academy Sports and Outdoors (retail sector) and Oriental Brewery (consumer products sector). The unrealized gains on our private portfolio were partially offset by unrealized losses relating primarily to Samson Resources (energy sector), Toys R Us (retail sector) and U.N RO-RO Isletmeleri A.S. (transportation sector). The increased valuations of our private portfolio, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance and (ii) in the case of Alliance Boots GmbH, in part due to the increase in the value of a publicly traded stock that may be delivered pursuant to a previously announced transaction. The decreased valuations of our private portfolio, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

The most significant driver of net gains (losses) from investment activities in our private equity investments for the year ended December 31, 2012 is related to unrealized gains and losses from changes in fair value. The net unrealized investment gains in our private equity portfolio were driven primarily by net unrealized gains of $3.4 billion, $1.9 billion and $0.9 billion in our 2006 Fund, European Fund II and Asian Fund, respectively. Approximately 24% of the net change in value for the year ended December 31, 2012 was attributable to changes in share prices of various publicly-listed investments, most notably increases in HCA, Inc., Dollar General Corporation (NYSE: DG) and NXP Semiconductors N.V., which were partially offset by decreases in Seven West Media Ltd. (AX: SWM), Far Eastern Horizon Ltd. (HK: 3360) and Tianrui Cement Co., Ltd. (HK: 1252). Our private portfolio contributed the remainder of the change in value, with the largest contributors being unrealized gains relating to Alliance Boots GmbH, Oriental Brewery and KION Group GmbH (manufacturing sector), which were partially offset by unrealized losses on Samson Resources, China International Capital Corporation (financial services sector) and Toys R Us, Inc. The increased valuations are generally related to an increase in the value of market comparables and individual company performance, and in the case of Alliance Boots GmbH, an increase that primarily reflected the valuation of an agreement to sell a portion of the investment executed in June 2012. The decreased valuations are generally related to an unfavorable business outlook for the respective companies.

Dividend Income

Dividend income was $695.5 million for the year ended December 31, 2013, a decrease of $245.4 million, compared to dividend income of $940.9 million for the year ended December 31, 2012. During the year ended December 31, 2013, we received dividends of $191.6 million from Capsugel (healthcare sector), $139.7 million from Pets at Home (consumer products sector), $113.9 million from Visma (technology sector), $85.6 million from Tarkett S.A. (manufacturing sector), $52.0 million from Santander Consumer USA and an aggregate of $112.7 million of dividends from other investments. During the year ended December 31, 2012, we received $520.0 million of dividends from HCA, Inc., $188.1 million from Academy Sports and Outdoors, $95.0 million from SunGard (technology sector), $78.5 million from TDC A/S (OMX: TDC), and an aggregate of $59.3 million of dividends from other investments. Significant dividends from portfolio companies are generally not recurring quarterly dividends, and while they may occur in the future, their size and frequency are variable.

Interest Income

Interest income was $474.8 million for the year ended December 31, 2013, an increase of $116.2 million, compared to $358.6 million for the year ended December 31, 2012. The increase primarily reflects a net increase in the level of credit instruments in our Public Markets investment vehicles.

Interest Expense

Interest expense was $99.6 million for the year ended December 31, 2013, an increase of $30.4 million, compared to $69.2 million for the year ended December 31, 2012. The increase was primarily due to an increase in debt obligations in connection with our 2043 Senior Notes issued on February 1, 2013.

Income (Loss) Before Taxes

Due to the factors described above, principally a decrease in dividends in investment income, an increase in expenses, partially offset by an increase in fees, income before taxes was $7.9 billion for the year ended December 31, 2013, a decrease of $0.2 billion, compared to income before taxes of $8.1 billion for the year ended December 31, 2012.

Net Income (Loss) Attributable to Redeemable Noncontrolling Interests

Net income attributable to redeemable noncontrolling interests was $62.3 million for the year ended December 31, 2013, an increase of $27.3 million, compared to $35.0 million for the year ended December 31, 2012. The increase primarily reflects a higher level of investment income in vehicles that allow for redemptions by their limited partners.

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Net Income (Loss) Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was $7.1 billion for the year ended December 31, 2013, a decrease of $0.3 billion, compared to $7.4 billion for the year ended December 31, 2012. The decrease was primarily driven by the overall changes in the components of net gains (losses) from investment activities described above as well as a decrease in KKR Holdings's ownership percentage in the KKR Group Partnerships.

Net Income (Loss) Attributable to KKR & Co. L.P.

Net income attributable to KKR & Co. L.P. was $691.2 million for the year ended December 31, 2013, an increase of $130.4 million, compared to $560.8 million for the year ended December 31, 2012. The increase was primarily attributable to an increase in KKR & Co. L.P.'s ownership percentage in the KKR Group Partnerships from 36.9% on December 31, 2012 to 41.6% on December 31, 2013.

Year ended December 31, 2012 compared to year ended December 31, 2011

Fees

Fees were $568.4 million for the year ended December 31, 2012, a decrease of $155.2 million, compared to fees of $723.6 million for the year ended December 31, 2011. The net decrease was primarily due to a decrease in transaction fees of $106.1 million and a decrease in monitoring fees of $73.3 million, which were partially offset by a $17.9 million increase in management fees. The decrease in transaction fees was primarily due to a decrease in the number and size of investments completed in our Private Markets segment and to a lesser extent a decrease in overall capital markets transaction activity. In our Private Markets segment, during 2012 there were 17 transaction fee-generating investments with a total combined transaction value of approximately $6.5 billion as compared to 19 transaction fee-generating investments with a total combined transaction value of approximately $24.9 billion during 2011. 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. In our capital markets business, the transaction fees we receive will depend on the amount of capital our funds and other vehicles deploy, the amount of capital this business syndicates and the number of transactions it completes for third party clients. The decrease in monitoring fees was primarily the result of $76.6 million of fees received in 2011 from the termination of monitoring fee arrangements in connection with the IPOs of HCA, Inc. and The Nielsen Company B.V. (NYSE: NLSN), and the sale of Seven Media Group (media sector), while no such termination payments were received in 2012. These types of 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. Also contributing to the decrease in monitoring fees was a decrease in expense reimbursements in connection with monitoring of portfolio companies of $16.2 million. The decrease in monitoring fees from termination payments and expense reimbursements was partially offset by an increase in recurring monitoring fees of $31.0 million. The increase in recurring monitoring fees was primarily the result of an increase in the number of portfolio companies paying a monitoring fee and an increase in the average size of the fee. During the year ended December 31, 2012, we had 40 portfolio companies that were paying an average monitoring fee of $2.9 million compared with 36 portfolio companies that were paying an average monitoring fee of $2.3 million during the year ended December 31, 2011. The increase in management fees was primarily due to an increase relating to the acquisition of Prisma as well as increases relating to new capital raised primarily in our Public Markets segment.

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Expenses

Expenses were $1.6 billion for the year ended December 31, 2012, an increase of $0.4 billion, compared to $1.2 billion for the year ended December 31, 2011. The increase was primarily attributable to a net increase in compensation and benefits of $0.4 billion due to (i) higher carried interest being allocated to the carry pool for employees during 2012 as compared to the prior period as a result of a higher level of investment income and (ii) higher equity-based compensation relating to equity grants under the KKR & Co. L.P. 2010 Equity Incentive Plan, partially offset by (iii) lower equity-based compensation reflecting fewer KKR Holdings units vesting for expense recognition purposes under the graded attribution method of expense recognition.

Net Gains (Losses) from Investment Activities

Net gains from investment activities were $7.9 billion for the year ended December 31, 2012, an increase of $6.9 billion, compared to $1.0 billion for the year ended December 31, 2011. The increase was primarily driven by a higher level of net appreciation in our private equity portfolio in the current period when compared to the prior period. The following is a summary of net gains (losses) from investment activities:

	Year Ended December 31, 2012	2011
	($ in thousands)	
Private Equity Investments	$ 7,936,155	$ 619,322
Other Net Gains (Losses) from Investment Activities	(64,482)	362,536
Net Gains (Losses) from Investment Activities	$ 7,871,673	$ 981,858

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

	Year Ended December 31, 2012	2011
	($ in thousands)	
Realized Gains	$ 4,954,124	$ 3,356,418
Unrealized Losses from Sales of Investments and Realization of Gains(a)	(4,688,754)	(3,235,503)
Realized Losses	(6,463)	(690,107)
Unrealized Gains from Sales of Investments and Realization of Losses(b)	6,463	681,952
Unrealized Gains from Changes in Fair Value	11,168,416	6,343,930
Unrealized Losses from Changes in Fair Value	(3,497,631)	(5,837,368)
Net Gains (Losses) from Investment Activities Private Equity Investments	$ 7,936,155	$ 619,322

(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.

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The most significant driver of net gains (losses) from investment activities in our private equity investments for the year ended December 31, 2012 is related to unrealized gains and losses from changes in fair value. The net unrealized investment gains in our private equity portfolio were driven primarily by net unrealized gains of $3.4 billion, $1.9 billion and $0.9 billion in our 2006 Fund, European Fund II and Asian Fund, respectively. Approximately 24% of the net change in value for the year ended December 31, 2012 was attributable to changes in share prices of various publicly-listed investments, most notably increases in HCA, Inc., Dollar General Corporation and NXP Semiconductors N.V., which were partially offset by decreases in Seven West Media Ltd., Far Eastern Horizon Ltd. and Tianrui Cement Co., Ltd. Our private portfolio contributed the remainder of the change in value, with the largest contributors being unrealized gains relating to Alliance Boots GmbH, Oriental Brewery and KION Group GmbH, which were partially offset by unrealized losses on Samson Resources, China International Capital Corporation and Toys R Us, Inc. The increased valuations are generally related to an increase in the value of market comparables and individual company performance, and in the case of Alliance Boots GmbH, an increase that primarily reflected the valuation of an agreement to sell a portion of the investment executed in June 2012. The decreased valuations are generally related to an unfavorable business outlook for the respective companies.

The most significant driver of net gains (losses) from investment activities in our private equity investments for the year ended December 31, 2011 is related to unrealized gains and losses from changes in fair value. The net unrealized investment gains in our private equity portfolio was 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. (NASDAQ: JAZZ), partially offset by decreases in Legrand Holdings S.A. (ENXTPA: LR), Sealy Corporation (NYSE: ZZ) and Ma Anshan Modern Farming Co. (HK: 1117). 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. These unrealized gains were partially offset by unrealized losses relating to Biomet, Inc. (healthcare sector) and Energy Future Holdings Corp. (energy sector). 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.

Dividend Income

Dividend income was $940.9 million for the year ended December 31, 2012, an increase of $715.8 million, compared to dividend income of $225.1 million for the year ended December 31, 2011. During the year ended December 31, 2012, we received $520.0 million of dividends from HCA, Inc., $188.1 million from Academy Sports and Outdoors, $95.0 million from SunGard, $78.5 million from TDC A/S, and an aggregate of $59.3 million of dividends from other investments. During the year ended December 31, 2011, we received $82.4 million of dividends from Dollar General Corporation, $68.3 million from Tarkett S.A. (manufacturing sector), $29.4 million from TDC A/S, $26.2 million from Legrand Holdings S.A. and an aggregate of $18.8 million of dividends from other investments. These types of dividends from portfolio companies are generally not recurring quarterly dividends and may occur in the future; however, their size and frequency are variable.

Interest Income

Interest income was $358.6 million for the year ended December 31, 2012, an increase of $36.7 million, compared to $321.9 million for the year ended December 31, 2011. The increase

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primarily reflects a net increase in the level of credit instruments in our Public Markets investment vehicles.

Interest Expense

Interest expense was $69.2 million for the year ended December 31, 2012, a decrease of $3.6 million, compared to $72.8 million for the year ended December 31, 2011. The decrease was primarily due to a net decrease in financing arrangements that were entered into by our consolidated funds with the objective of enhancing returns.

Income (Loss) Before Taxes

Due to the factors described above, principally increased gains from investment activities, income before taxes was $8.1 billion for the year ended December 31, 2012, an increase of $7.1 billion, compared to $1.0 billion for the year ended December 31, 2011.

Net Income (Loss) Attributable to Redeemable Noncontrolling Interests

Net income attributable to redeemable noncontrolling interests was $35.0 million for the year ended December 31, 2012, an increase of $30.7 million, compared to $4.3 million for the year ended December 31, 2011. The increase is due primarily to increases in the investment values of vehicles that allow for redemptions by limited partners, and to a lesser extent an increase in capital contributions as compared to the year ended December 31, 2011.

Net Income (Loss) Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was $7.4 billion for the year ended December 31, 2012, an increase of $6.5 billion, compared to $0.9 billion for the year ended December 31, 2011. The increase was primarily driven by the overall changes in the components of net gains (losses) from investment activities described above.

Net Income (Loss) Attributable to KKR & Co. L.P.

Net income attributable to KKR & Co. L.P. was $560.8 million for the year ended December 31, 2012, an increase of $558.9 million, compared to $1.9 million for the year ended December 31, 2011. The increase was primarily attributable to the increase in net gains (losses) from investment activities as described above.

Segment Analysis

The following is a discussion of the results of our three reportable business segments for years ended December 31, 2013, 2012 and 2011. You should read this discussion in conjunction with the information included under " Basis of Financial Presentation Segment Operating and Performance Measures" and the consolidated financial statements and related notes included elsewhere in this report.

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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, 2013, 2012 and 2011.

	Year Ended December 31,		
	2013	2012	2011
		($ in thousands)	
Fees			
Management and Incentive Fees:			
Management Fees	$ 459,496	$ 423,921	$ 430,400
Incentive Fees			
Management and Incentive Fees	459,496	423,921	430,400
Monitoring and Transaction Fees:			
Monitoring Fees	120,267	116,565	163,769
Transaction Fees	150,118	96,454	166,654
Fee Credits	(136,662)	(97,362)	(144,928)
Net Monitoring and Transaction Fees	133,723	115,657	185,495
Total Fees	593,219	539,578	615,895
Expenses			
Compensation and Benefits	231,911	192,765	185,709
Occupancy and Related Charges	48,045	48,562	45,694
Other Operating Expenses	154,982	147,253	157,901
Total Expenses	434,938	388,580	389,304
Fee Related Earnings	158,281	150,998	226,591
Investment Income (Loss)			
Realized Carried Interest	690,027	475,707	336,858
Unrealized Carried Interest	692,085	917,048	(70,647)
Gross Carried Interest	1,382,112	1,392,755	266,211
Less: Allocation to KKR Carry Pool	(558,014)	(565,543)	(109,361)
Less: Management Fee Refunds	(30,282)	(143,723)	(17,587)
Net Carried Interest	793,816	683,489	139,263

Realized Other Investment Income (Loss)						
Unrealized Other Investment Income (Loss)		1,897		599		(549)
Total Other Investment Income (Loss)		1,897		599		(549)
Total Investment Income (Loss)		795,713		684,088		138,714
Income (Loss) Before Noncontrolling Interests in Income (Loss) of Consolidated Entities		953,994		835,086		365,305
Income (Loss) Attributable to Noncontrolling Interests		1,498		3,390		2,536
Economic Net Income (Loss)	$	952,496	$	831,696	$	362,769
Assets Under Management	$	61,242,900	$	49,127,600	$	43,627,900
Fee Paying Assets Under Management	$	50,156,300	$	41,173,000	$	37,869,700
Committed Dollars Invested	$	5,840,900	$	3,026,300	$	5,033,300
Uncalled Commitments	$	20,101,600	$	14,271,100	$	10,070,300

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Year ended December 31, 2013 compared to year ended December 31, 2012

Fees

Fees were $593.2 million for the year ended December 31, 2013, an increase of $53.6 million, compared to fees of $539.6 million for the year ended December 31, 2012. The net increase was primarily due to an increase in transaction fees of $53.7 million and an increase in management fees of $35.6 million, partially offset by an increase in fee credits of $39.3 million. The increase in transaction fees was attributable to an increase in both the size and number of fee-generating investments completed. During the year ended December 31, 2013, there were 33 transaction fee-generating investments with a total combined transaction value of approximately $15.0 billion compared to 17 transaction fee-generating investments with a total combined transaction value of approximately $6.5 billion during the year ended December 31, 2012. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular discussions as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The increase in fee credits is primarily attributable to the increase in transaction fees, as described above. The increase in management fees is primarily attributable to new capital raised in KKR North America Fund XI and KKR Asian Fund II, partially offset by the KKR 2006 Fund and KKR Asian Fund entering their post-investment periods with a lower management fee. As of December 31, 2013, FPAUM excluded approximately $0.7 billion of unallocated commitments from a strategic partnership with a state pension plan and $2.2 billion in commitments in connection with infrastructure, energy, private equity and co-investment vehicles for which we are currently not earning management fees. The inclusion of these amounts in FPAUM in future periods would be accretive to our fees. The investment period of our European Fund III ends on March 31, 2014, which will reduce the fund's fee rate and change the fund's management fee base from committed capital to invested capital. This will result in a decrease in fees earned for European Fund III beginning in the second quarter of 2014. This decrease will not be offset by a successor European private equity fund until such time as the successor fund has its first close and commences its investment period, which will occur after our European Fund III enters its post-investment period.

Expenses

Expenses were $434.9 million for the year ended December 31, 2013, an increase of $46.3 million, compared to expenses of $388.6 million for the year ended December 31, 2012. The increase was primarily the result of an increase in compensation and benefits in connection with the increase in fees, which generally results in higher compensation expense, as well as an increase in headcount.

Fee Related Earnings

Fee related earnings were $158.3 million for the year ended December 31, 2013, an increase of $7.3 million, compared to fee related earnings of $151.0 million for the year ended December 31, 2012. The increase was due to the increase in fees partially offset by increase in expenses and fees as described above.

Investment Income (Loss)

Investment income was $795.7 million for the year ended December 31, 2013, an increase of $111.6 million, compared to investment income of $684.1 million for the year ended December 31, 2012. This increase was primarily driven by a lower level of management fee refunds.

Management fee refunds amounted to $30.3 million for the year ended December 31, 2013, a decrease of $113.4 million, as compared to $143.7 million for the year ended December 31, 2012. The decrease in management fee refunds primarily reflects an increased level of accrued carried interest in

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European Fund III and European Fund II in the year ended 2012 which triggered the recognition of a higher level of management fee refunds in the prior period.

Realized carried interest for the year ended December 31, 2013 consisted primarily of realized gains from the partial sale and final sale of Dollar General Corporation, the partial sales of HCA, Inc. and sale of Intelligence, Ltd. (services sector).

Realized carried interest for the year ended December 31, 2012 consisted primarily of realized gains from the partial sale of Alliance Boots GmbH, sale of Legrand Holdings S.A. and partial sale of HCA, Inc.

The following table presents net unrealized carried interest by investment vehicle for the year ended December 31, 2013 and 2012:

	Year Ended December 31,	
	2013	**2012**
	($ in thousands)	
2006 Fund	$ 294,883	$ 449,429
European Fund II	169,819	181,420
European Fund III	124,463	123,746
North America Fund XI	34,389	
Co-Investment Vehicles and Other	22,009	71,981
E2 Investors	14,774	27,252
Real Estate Partners Americas	12,516	
Millennium Fund	12,128	637
China Growth Fund	6,937	(12,388)
Asian Fund	148	151,514
European Fund	19	(76,543)
Total(a)	$ 692,085	$ 917,048

(a) The above table excludes any funds for which there was no unrealized carried interest during either of the periods presented, which for the year ended December 31, 2013, consisted of Asian Fund II.

For the year ended December 31, 2013, the net unrealized carried interest gain of $692.1 million included $1,174.6 million representing net increases in the value of various portfolio companies which were partially offset by $482.5 million primarily representing reversals of previously recognized net unrealized gains in the connection with the occurrence of realization events such as partial or full sales.

For the year ended December 31, 2013, the value of our private equity investment portfolio increased 20.2%. Increased share prices of various publicly held investments comprised approximately 46% of the net increase in value for the year ended December 31, 2013, the most significant of which were gains on HCA, Inc., ProSiebenSat.1 Media AG and NXP Semiconductors N.V. These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were Bharti Infratel Ltd. and China Outfitters Holdings. Our private portfolio contributed the remainder of the change in value, the most significant of which were gains relating to Alliance Boots GmbH, Academy Sports and Outdoors and Oriental Brewery. The unrealized gains on our private portfolio were partially offset by unrealized losses relating primarily to Toys R Us, Samson Resources, and U.N. RO-RO Isletmeleri A.S. The increased valuations of our private portfolio, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance and (ii) in the case of Alliance Boots GmbH, in part due to the increase in the value of a publicly traded stock that may be delivered pursuant to a previously announced transaction. The decreased valuations of our private portfolio, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

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The reversals of previously recognized net unrealized gains for the year ended December 31, 2013 resulted primarily from the partial sales and final sale of Dollar General Corporation, the partial sales of HCA, Inc. and sale of Intelligence, Ltd. During the year ended December 31, 2013, we wrote off PagesJaunes Group (media sector) (currently known as Solocal Group SA (FRA: QS3)) and our remaining warrants in Eastman Kodak (technology sector) and sold our remaining investment in Seven West Media Ltd. realizing a modest loss. None of these events had a material impact on our net carried interest.

For the year ended December 31, 2012, the net unrealized gains of $917.0 million included $1,141.1 million attributable to net increases in the value of various portfolio companies, partially offset by $224.1 million of reversals of previously recognized net unrealized gains in connection with the occurrence of realization events such as partial or full sales of investments.

Of the $1,141.1 million of net increases in value, 24% was attributable to increased share prices of various publicly held investments, the most significant of which were gains on HCA, Inc., Dollar General Corporation and NXP Semiconductors N.V. These increases were partially offset by decreased share prices of other publicly held investments, the most significant of which were Seven West Media Ltd., Far Eastern Horizon Ltd., and Tianrui Cement Co., Ltd. Our private portfolio contributed the remainder of the change in value, the most significant of which were gains relating to Alliance Boots GmbH, Oriental Brewery and KION Group GmbH. The unrealized gains on our private portfolio were partially offset by unrealized losses relating to Samson Resources, China International Capital Corporation, and Toys R Us. The increased valuations are generally related to an increase in the value of market comparables and individual company performance, and in the case of Alliance Boots GmbH, an increase that primarily reflected the valuation of an agreement to sell a portion of the investment executed in June 2012. The decreased valuations are generally related to an unfavorable business outlook for the respective companies.

The reversals of previously recognized net unrealized gains for the year ended December 31, 2012 resulted primarily from the partial sale of Alliance Boots GmbH, sale of Legrand Holdings S.A. and partial sale of HCA, Inc.

Economic Net Income (Loss)

Economic net income in our Private Markets segment was $952.5 million for the year ended December 31, 2013, an increase of $120.8 million, compared to economic net income of $831.7 million for the year ended December 31, 2012. The increase in investment income as described above was the primary contributor to the period over period increase in economic net income.

Assets Under Management

The following table reflects the changes in our Private Markets AUM from December 31, 2012 to December 31, 2013:

	($ in thousands)
December 31, 2012	$ 49,127,600
New Capital Raised	13,613,100
Distributions	(9,197,900)
Net Changes in Fee Base of Certain Funds	(272,300)
Foreign Exchange	32,800
Change in Value	7,939,600
December 31, 2013	$ 61,242,900

AUM for the Private Markets segment was $61.2 billion at December 31, 2013, an increase of $12.1 billion, compared to $49.1 billion at December 31, 2012. The increase was primarily attributable

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to (i) new capital raised of $13.6 billion relating primarily to Asian Fund II commencing its investment period at which time it began recognizing management fees as well as additional capital raised in North America Fund XI, Energy Income and Growth Fund and Real Estate Partners Americas and (ii) appreciation in the market value of our private equity portfolio of $7.9 billion. The increases were partially offset by $9.2 billion in distributions to private equity fund investors comprised of $6.0 billion of realized gains and $3.2 billion of return of original cost.

The appreciation in the market value of our private equity portfolio were driven primarily by net unrealized gains of $3.0 billion, $1.3 billion and $1.1 billion in our 2006 Fund, European Fund II and European Fund III, respectively. Approximately 46% of the net change in value for the year ended December 31, 2013 was attributable to changes in share prices of various publicly-listed investments, most notably increases in HCA, Inc., ProSiebenSat.1 Media AG and NXP Semiconductors N.V., partially offset by decreases relating to Bharti Infratel Ltd and China Outfitters Holdings. Our private portfolio contributed the remainder of the change in value, with the largest contributors being unrealized gains relating to Alliance Boots GmbH, Academy Sports and Outdoors and Oriental Brewery. The unrealized gains on our private portfolio were partially offset by unrealized losses relating primarily to Samson Resources, Toys R Us and U.N RO-RO Isletmeleri A.S. The increased valuations of our private portfolio, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance and (ii) in the case of Alliance Boots GmbH, in part due to the increase in the value of a publicly traded stock that may be delivered pursuant to a previously announced transaction. The decreased valuations of our private portfolio, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

As of December 31, 2013, our AUM excluded approximately $0.7 billion of unallocated commitments from a strategic partnership with a state pension plan, and $2.2 billion in commitments in connection with other infrastructure, energy, private equity and co-investment vehicles for which we are currently not earning management fees. Such commitments will not contribute to AUM unless and until we are entitled to receive fees or carried interest in accordance with our definition of AUM.

Fee Paying Assets Under Management

The following table reflects the changes in our Private Markets FPAUM from December 31, 2012 to December 31, 2013:

	($ in thousands)
December 31, 2012	$ 41,173,000
New Capital Raised	13,200,600
Distributions	(3,860,800)
Net Changes in Fee Base of Certain Funds	(654,700)
Foreign Exchange	