

KKR & Co. L.P.
Form 10-Q
November 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2015

Or

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

For the Transition period from _____ to _____.

Commission File Number 001-34820

KKR & CO. L.P.
(Exact name of Registrant as specified in its charter)
Delaware
(State or other Jurisdiction of
Incorporation or Organization)

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

9 West 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.)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of November 3, 2015, there were 464,720,514 Common Units of the registrant outstanding.

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FORM 10-Q

For the Quarter Ended September 30, 2015

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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 strategic partnership with Marshall Wace LLP, the declaration and payment of distributions on common units of KKR, the timing, manner and volume of repurchases of common units pursuant to a repurchase program and the expected synergies from the acquisitions or strategic partnerships, may constitute forward-looking statements that are subject to the risk that 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Securities and Exchange Commission on February 27, 2015. 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, 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. On August 5, 2014, KKR International Holdings L.P. became a KKR Group Partnership. 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 and other employees and non-employee operating consultants in respect of the carried interest from KKR's business as part of our "carry pool" and certain minority interests. References to "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 our senior employees who hold interests in our Managing Partner entitling them to vote for the election of its directors.

References to non-employee operating consultants include employees of KKR Capstone and are not employees of KKR. KKR Capstone refers to a group of entities that are owned and controlled by their senior management. KKR Capstone is not a subsidiary or affiliate of KKR. KKR Capstone operates under several consulting agreements with KKR and uses the "KKR" name under license from KKR.

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 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 "GAAP" refers to accounting principles generally accepted in the United States of America.

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We disclose certain financial measures in this report that are calculated and presented using methodologies other than in accordance with GAAP. We believe that providing these performance measures on a supplemental basis to our GAAP results is helpful to 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 "Condensed Consolidated Financial Statements (Unaudited)—Note 13. Segment Reporting" and later in this report under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Segment Balance Sheet."

This report uses the terms total distributable earnings, net realized investment income, assets under management or AUM, fee paying assets under management or FPAUM, fee related earnings or FRE, fee and yield earnings, economic net income or ENI, equity invested, gross dollars invested and syndicated capital. You should note that our calculations of these financial measures and other financial measures may differ from the calculations of other investment managers and, as a result, our financial measures may not be comparable to similar measures presented by other investment managers. These and other financial measures are defined in the section "Management's Discussion and Analysis of Financial Condition & Results of Operations—Key Financial Measures under GAAP—Segment Operating and Performance Measures" and "— Segment Balance Sheet —Liquidity—Liquidity Needs."

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 including CLO and CMBS vehicles, unless context requires otherwise. They do not include investment funds, vehicles or accounts of any hedge fund manager with which we have formed a strategic partnership where we have acquired a non-controlling interest.

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, (iii) common units issuable in respect of exchangeable equity securities issued in connection with the acquisition of Avoca Capital ("Avoca"), and (iv) 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.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(Amounts in Thousands, Except Unit Data)

	September 30, 2015	December 31, 2014
Assets		
Cash and Cash Equivalents	\$1,756,918	\$918,080
Cash and Cash Equivalents Held at Consolidated Entities	1,280,628	1,372,775
Restricted Cash and Cash Equivalents	272,790	102,991
Investments	62,705,798	60,167,626
Due from Affiliates	116,103	147,056
Other Assets	2,924,689	3,164,217
Total Assets	\$69,056,926	\$65,872,745
Liabilities and Equity		
Debt Obligations	\$16,587,643	\$10,837,784
Due to Affiliates	161,835	131,548
Accounts Payable, Accrued Expenses and Other Liabilities	2,806,708	3,199,352
Total Liabilities	19,556,186	14,168,684
Commitments and Contingencies		
Redeemable Noncontrolling Interests	160,565	300,098
Equity		
KKR & Co. L.P. Partners' Capital (453,251,950 and 433,330,540 common units issued and outstanding as of September 30, 2015 and December 31, 2014, respectively)	5,689,729	5,403,095
Accumulated Other Comprehensive Income (Loss)	(31,083	) (20,404
Total KKR & Co. L.P. Partners' Capital	5,658,646	5,382,691
Noncontrolling Interests	43,681,529	46,004,377
Appropriated Capital	—	16,895
Total Equity	49,340,175	51,403,963
Total Liabilities and Equity	\$69,056,926	\$65,872,745

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued) (UNAUDITED)

(Amounts in Thousands)

The following presents the portion of the consolidated balances presented in the condensed consolidated statements of financial condition attributable to consolidated variable interest entities ("VIEs") as of September 30, 2015 and December 31, 2014. The assets of consolidated collateralized financing entities ("CFEs") holding collateralized loan obligations ("CLOs") and commercial real estate mortgage-backed securities ("CMBS"), which comprise the majority of KKR's consolidated VIEs, are held solely as collateral to satisfy the obligations of the CFEs. KKR has no right to the benefits from, nor does KKR bear the risks associated with, the assets held by these CFEs beyond KKR's beneficial interest therein and any fees generated from the CFEs. The assets in each CFE can be used only to settle the debt of the related CFE. The noteholders and other creditors of the CFEs have no recourse to KKR's general assets. There are neither explicit arrangements nor does KKR hold implicit variable interests that would require KKR to provide any ongoing financial support to the CFEs.

	September 30, 2015	December 31, 2014
Assets		
Cash and Cash Equivalents Held at Consolidated Entities	\$ 761,944	\$ 1,046,018
Investments	11,769,316	8,559,967
Other Assets	167,938	129,949
Total Assets	\$ 12,699,198	\$ 9,735,934
Liabilities		
Debt Obligations	\$ 11,058,418	\$ 7,615,340
Accounts Payable, Accrued Expenses and Other Liabilities	495,103	638,953
Total Liabilities	\$ 11,553,521	\$ 8,254,293

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in Thousands, Except Unit Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Fees and Other	\$188,626	\$344,768	\$735,845	\$897,064
Expenses				
Compensation and Benefits	96,959	320,423	873,649	1,010,191
Occupancy and Related Charges	16,484	15,501	48,388	46,968
General, Administrative and Other	163,477	168,486	424,093	505,747
Total Expenses	276,920	504,410	1,346,130	1,562,906
Investment Income (Loss)				
Net Gains (Losses) from Investment Activities	(1,555,681	) 298,259	3,474,748	4,242,289
Dividend Income	270,759	599,020	710,130	968,626
Interest Income	299,485	260,292	898,628	638,124
Interest Expense	(151,554	) (96,618	) (402,944	) (197,346
Total Investment Income (Loss)	(1,136,991	) 1,060,953	4,680,562	5,651,693
Income (Loss) Before Taxes	(1,225,285	) 901,311	4,070,277	4,985,851
Income Tax / (Benefit)	(7,390	) 29,267	39,295	57,145
Net Income (Loss)	(1,217,895	) 872,044	4,030,982	4,928,706
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	(12,925	) (2,462	) (11,883	) 1,366
Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital	(1,014,382	) 784,568	3,586,640	4,449,146
Net Income (Loss) Attributable to KKR & Co. L.P.	\$(190,588	) \$89,938	\$456,225	\$478,194
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit				
Basic	\$(0.42	) \$0.21	\$1.03	\$1.31
Diluted	\$(0.42	) \$0.20	\$0.95	\$1.21
Weighted Average Common Units Outstanding				
Basic	452,165,697	419,961,455	444,675,159	364,127,956
Diluted	452,165,697	452,019,742	480,338,335	396,232,828

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Amounts in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Income (Loss)	\$(1,217,895)	\$872,044	\$4,030,982	\$4,928,706
Other Comprehensive Income (Loss), Net of Tax:				
Foreign Currency Translation Adjustments	(6,824)	(24,883)	(24,251)	(20,054)
Comprehensive Income (Loss)	(1,224,719)	847,161	4,006,731	4,908,652
Less: Comprehensive Income (Loss) Attributable to Redeemable Noncontrolling Interests	(12,925)	(2,462)	(11,883)	1,366
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital	(1,020,114)	768,846	3,572,197	4,437,274
Comprehensive Income (Loss) Attributable to KKR & Co. L.P.	\$(191,680)	\$80,777	\$446,417	\$470,012

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(Amounts in Thousands, Except Unit Data)

	KKR & Co. L.P.		Accumulated			Total Equity	Redeemable Noncontrolling Interests
	Common Units	Partners' Capital	Other Comprehensive Income (Loss)	Noncontrolling Interests	Appropriated Capital		
Balance at January 1, 2014	288,143,327	\$2,727,909	\$ (5,899)	\$ 43,235,001	\$—	\$45,957,011	\$ 627,807
Net Income (Loss)		478,194		4,449,771	(625)	4,927,340	1,366
Other Comprehensive Income (Loss)-Foreign Currency Translation (Net of Tax)			(8,182)	(10,664)	(1,208)	(20,054)	
Exchange of KKR Holdings L.P. Units and Other Exchangeable Securities to KKR & Co. L.P. Common Units and transfers of CLO beneficial interests to appropriated capital Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units Net Delivery of Common Units-Equity Incentive Plan Equity Based Compensation	22,071,419	265,252	(548)	(292,380)	27,676	—	
Acquisitions	108,005,588	2,453,610		435,478		2,889,088	
Capital Contributions				9,509,493		9,509,493	116,768
Capital Distributions		(592,111)		(11,157,838)		(11,749,949)	(444,984)
Balance at September 30, 2014	424,041,543	\$5,500,280	\$ (14,101)	\$ 46,300,976	\$ 25,843	\$51,812,998	\$ 300,957

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KKR & Co. L.P.							
	Common Units	Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Appropriated Capital	Total Equity	Redeemable Noncontrolling Interests
Balance at January 1, 2015	433,330,540	\$5,403,095	\$ (20,404)	\$ 46,004,377	\$ 16,895	\$51,403,963	\$ 300,098
Net Income (Loss)		456,225		3,586,640		4,042,865	(11,883)
Other Comprehensive Income (Loss)- Foreign Currency Translation (Net of Tax)			(9,808)	(14,443)		(24,251)	
Cumulative-effect adjustment from adoption of accounting guidance		(307)			(16,895)	(17,202)	
Exchange of KKR Holdings L.P. Units and Other Securities to KKR & Co. L.P. Common Units	12,754,560	164,718	(1,153)	(163,565)		—	
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units		20,648	282			20,930	
Net Delivery of Common Units-Equity Incentive Plan	7,166,850	40,559				40,559	
Equity Based Compensation		148,970		64,879		213,849	
Capital Contributions		0		4,647,456		4,647,456	172,493
Capital Distributions		(544,179)		(10,443,815)		(10,987,994)	(300,143)
Balance at September 30, 2015	453,251,950	\$5,689,729	\$ (31,083)	\$ 43,681,529	\$ —	\$49,340,175	\$ 160,565

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in Thousands)

	Nine Months Ended September 30,	
	2015	2014
Operating Activities		
Net Income (Loss)	\$4,030,982	\$4,928,706
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Equity Based Compensation	213,849	254,435
Net Realized (Gains) Losses on Investments	(4,335,930)	(4,831,611)
Change in Unrealized (Gains) Losses on Investments	861,182	589,322
Other Non-Cash Amounts	(72,907)	(115,821)
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Change in Cash and Cash Equivalents Held at Consolidated Entities	42,688	(544,990)
Change in Due from / to Affiliates	22,326	15,508
Change in Other Assets	466,498	(427,040)
Change in Accounts Payable, Accrued Expenses and Other Liabilities	(149,614)	219,784
Investments Purchased	(21,320,354)	(29,843,313)
Proceeds from Sale of Investments and Principal Payments	21,973,822	31,273,024
Net Cash Provided (Used) by Operating Activities	1,732,542	1,518,004
Investing Activities		
Change in Restricted Cash and Cash Equivalents	(169,799)	20,765
Purchase of Furniture, Computer Hardware and Leasehold Improvements	(9,977)	(6,373)
Development of Oil and Natural Gas Properties	(89,542)	—
Proceeds from Sale of Oil and Natural Gas Properties	4,863	—
Net Cash Acquired (Paid for Acquisitions)	—	151,491
Net Cash Provided (Used) by Investing Activities	(264,455)	165,883
Financing Activities		
Distributions to Partners	(544,179)	(592,111)
Distributions to Redeemable Noncontrolling Interests	(300,143)	(444,984)
Contributions from Redeemable Noncontrolling Interests	172,493	116,768
Distributions to Noncontrolling Interests	(10,443,815)	(11,157,838)
Contributions from Noncontrolling Interests	4,647,456	9,509,493
Net Delivery of Common Units - Equity Incentive Plan	40,559	28,411
Proceeds from Debt Obligations	10,373,768	3,699,781
Repayment of Debt Obligations	(4,539,684)	(2,656,017)
Financing Costs Paid	(35,704)	(21,013)
Net Cash Provided (Used) by Financing Activities	(629,249)	(1,517,510)
Net Increase/(Decrease) in Cash and Cash Equivalents	838,838	166,377
Cash and Cash Equivalents, Beginning of Period	918,080	1,306,383
Cash and Cash Equivalents, End of Period	\$1,756,918	\$1,472,760

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued) (UNAUDITED)

(Amounts in Thousands)

	Nine Months Ended September 30,	
	2015	2014
Supplemental Disclosures of Cash Flow Information		
Payments for Interest	\$350,193	\$173,212
Payments for Income Taxes	\$31,371	\$38,988
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Non-Cash Contributions of Equity Based Compensation	\$213,849	\$254,435
Cumulative effect adjustment from adoption of accounting guidance	\$(17,202)) \$—
Debt Obligations - Net Gains (Losses), Translation and Other	\$110,371	\$165,094
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units	\$20,930	\$17,223
Impairments of Oil and Natural Gas Properties	\$30,267	\$—
Equity Issued in Connection with Contingent Payment Obligation	\$—	\$84,051
Net Assets Acquired		
Cash and Cash Equivalents Held at Consolidated Entities	\$—	\$765,231
Restricted Cash and Cash Equivalents	\$—	\$35,038
Investments	\$—	\$9,225,660
Other Assets	\$—	\$885,314
Debt Obligations	\$—	\$7,538,726
Accounts Payable, Accrued Expenses and Other Liabilities	\$—	\$616,979

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(All Amounts in Thousands, Except Unit, Per Unit Data, and Except Where Noted)

1. ORGANIZATION

KKR & Co. L.P. (NYSE: KKR), together with its consolidated subsidiaries (“KKR”), is a leading global investment firm that manages investments across multiple asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds. KKR aims to generate attractive investment returns by following a patient and disciplined investment approach, employing world class people, and driving growth and value creation at the asset level. KKR invests its own capital alongside the capital it manages for fund investors and brings debt and equity investment opportunities to others through its capital markets business.

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

KKR & Co. L.P. both indirectly controls the KKR Group Partnerships and indirectly holds Class A partner units in each KKR Group Partnership (collectively, “KKR Group Partnership Units”) representing economic interests in KKR’s business. The remaining KKR Group Partnership Units are held by KKR Holdings L.P. (“KKR Holdings”), which is not a subsidiary of KKR. As of September 30, 2015, KKR & Co. L.P. held approximately 55% of the KKR Group Partnership Units and principals through KKR Holdings held approximately 45% of the KKR Group Partnership Units. The percentage ownership in the KKR Group Partnerships will continue to change as KKR Holdings and/or principals exchange units in the KKR Group Partnerships for KKR & Co. L.P. common units or when KKR & Co. L.P. otherwise issues new KKR & Co. L.P. common units.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of KKR & Co. L.P. have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the instructions to Form 10-Q. The condensed consolidated financial statements (referred to hereafter as the “financial statements”), including these notes, are unaudited and exclude some of the disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) such that the condensed consolidated financial statements are presented fairly and that estimates made in preparing the condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The December 31, 2014 condensed consolidated balance sheet data was derived from audited consolidated financial statements included in KKR’s Annual Report on Form 10-K for the year ended December 31, 2014, which include all disclosures required by GAAP. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in KKR & Co. L.P.’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”).

KKR & Co. L.P. consolidates the financial results of the KKR Group Partnerships and their consolidated subsidiaries, which include (i) the accounts of KKR’s investment management and capital markets companies, (ii) the general partners of certain unconsolidated funds and vehicles, (iii) general partners of consolidated funds and their respective consolidated funds and (iv) certain other entities including CFEs.

References in the accompanying financial statements to “principals” are to KKR’s senior employees and non-employee operating consultants who hold interests in KKR’s business through KKR Holdings, and references to “Senior Principals” are to KKR’s senior employees who hold interests in the Managing Partner entitling them to vote for the election of the Managing Partner’s directors.

Use of Estimates

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

Principles of Consolidation

The types of entities KKR assesses for consolidation include (i) subsidiaries, including management companies, broker-dealers and general partners of investment funds that KKR manages, (ii) entities that have all the attributes of an investment company, like investment funds, (iii) CFEs and (iv) other entities, including entities that employ non-employee operating consultants. Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to its consolidation policy, KKR first considers whether an entity is considered a VIE and therefore whether to apply the consolidation guidance under the VIE model. Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities (“VOEs”) under the voting interest model.

The consolidation rules were revised effective January 1, 2010 which had the effect of changing the criteria for determining whether a reporting entity is the primary beneficiary of a VIE. However, the adoption of these new consolidation rules was indefinitely deferred (the “Deferral”) for a reporting entity’s interests in certain entities. In particular, entities that have all the attributes of an investment company such as investment funds generally meet the conditions necessary for the Deferral. Entities that are securitization or asset-backed financing entities such as CFEs would generally not qualify for the Deferral. Accordingly, when making the assessment of whether an entity is a VIE, KKR considers whether the entity being assessed meets the conditions for the Deferral and therefore would be subject to the rules that existed prior to January 1, 2010. Under both sets of rules, VIEs for which KKR is determined to be the primary beneficiary are consolidated and such VIEs generally include certain CFEs and entities that employ non-employee operating consultants.

An entity in which KKR holds a variable interest is a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial

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support, (b) the holders of equity investment at risk (as a group) lack either the direct or indirect ability through voting rights or similar rights to make decisions about a legal entity's activities that have a significant effect on the success of the legal entity or the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the legal entity, their rights to receive the expected residual returns of the legal entity, or both and substantially all of the legal entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights.

With respect to VIEs such as KKR's investment funds that qualify for the Deferral and therefore apply the previous consolidation rules, KKR is determined to be the primary beneficiary if its involvement, through holding interests directly or indirectly in the VIE or contractually through other variable interests (e.g., carried interest), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. In cases where two or more KKR related parties hold a variable interest in a VIE, and the aggregate variable interest held by those parties would, if held by a single party, identify that party as the primary beneficiary, then KKR is determined to be the primary beneficiary to the extent it is the party within the related party group that is most closely associated with the VIE.

Under the voting interest model, KKR consolidates those entities it controls through a majority voting interest or through other means, including those VOEs in which the general partner is presumed to have control. KKR does not consolidate those VOEs in which the presumption of control by the general partner has been overcome through either the granting of substantive rights to the unaffiliated fund investors to either dissolve the fund or remove the general partner ("kick-out rights") or the granting of substantive participating rights.

The consolidation assessment, including the determination as to whether an entity qualifies as a VIE or VOE depends on the facts and circumstances surrounding each entity and therefore certain of KKR's investment funds may qualify as VIEs whereas others may qualify as VOEs.

With respect to KKR's consolidated funds that are not CFEs, KKR meets the criteria for the Deferral and therefore applies the consolidation rules that existed prior to January 1, 2010. For these funds, KKR generally has 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 a result, a fund should be consolidated unless KKR has a nominal level of equity at risk. To the extent that KKR commits a nominal amount of equity to a given fund and has no obligation to fund any future losses, the equity at risk to KKR is not considered substantive and the fund is typically considered a VIE. In these cases, the fund investors are generally deemed to be the primary beneficiaries, and KKR does not consolidate the fund. In cases when KKR's equity at risk is deemed to be substantive, the fund is generally considered to be a VOE and KKR generally consolidates the fund under the VOE model.

With respect to CFEs, which are generally VIEs, the criteria for the Deferral are not met and therefore KKR applies the consolidation rules issued on January 1, 2010.

With respect to CLOs, in its role as collateral manager, KKR generally has the power to direct the activities of the CLO entities that most significantly impact the economic performance of the entity. In some, but not all cases, KKR, through both its residual interest in the CLO and the potential to earn an incentive fee, may have variable interests that represent an obligation to absorb losses of, or a right to receive benefits from, the CLO that could potentially be significant to the CLO. In cases where KKR has both (a) the power to direct the activities of the CLO that most significantly impact the CLOs economic performance and (b) the obligation to absorb losses of the CLO or the right to receive benefits from the CLO that could potentially be significant to the CLO, KKR consolidates the CLO.

With respect to consolidated CMBS vehicles, KKR holds unrated and non-investment grade rated securities issued by the CMBS, which are the most subordinate tranche of the CMBS vehicle. The economic performance of the CMBS is most significantly impacted by the performance of the underlying assets. Thus, the activities that most significantly impact the CMBS economic performance are the activities that most significantly impact the performance of the underlying assets. The special servicer has the ability to manage the CMBS assets that are delinquent or in default to improve the economic performance of the CMBS. KKR generally has the right to unilaterally appoint and remove the special servicer for the CMBS and as such is considered the controlling class of the CMBS vehicle. These rights give KKR the ability to direct the activities that could most significantly impact the economic performance of the CMBS. Additionally, as the holder of the most subordinate tranche, KKR is in a first loss position and has the right to receive benefits, including the actual residual returns of the CMBS, if any. In these cases, KKR is deemed to be the primary beneficiary and consolidates the CMBS.

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

KKR's funds are, for GAAP purposes, investment companies and therefore are not required to consolidate their investments in portfolio companies even if majority-owned and controlled. Rather, the consolidated funds and vehicles reflect their investments at fair value as described below in "Fair Value Measurements".

All intercompany transactions and balances have been eliminated.

Business Combinations

Acquisitions are accounted for using the acquisition method of accounting. The purchase price of an acquisition is allocated to the assets acquired and liabilities assumed using the estimated fair values at the acquisition date. Transaction costs are expensed as incurred.

Intangible Assets

Intangible assets consist primarily of contractual rights to earn future fee income, including management and incentive fees, and are recorded in Other Assets in the accompanying condensed consolidated statements of financial condition. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives and amortization expense is included within General, Administrative and Other in the accompanying condensed consolidated statements of operations. Intangible assets are reviewed for impairment when circumstances indicate impairment may exist. KKR does not have any indefinite-lived intangible assets.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net tangible and intangible assets acquired in connection with an acquisition. Goodwill is assessed for impairment annually or more frequently if circumstances indicate impairment may have occurred. Goodwill is recorded in Other Assets in the accompanying condensed consolidated statements of financial condition.

Redeemable Noncontrolling Interests

Redeemable Noncontrolling Interests represent noncontrolling interests of certain investment vehicles and funds that are subject to periodic redemption by fund investors following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee during the period when capital may not be otherwise withdrawn. Fund investors interests subject to redemption as described above are presented as Redeemable Noncontrolling Interests in the accompanying condensed consolidated statements of financial condition and presented as Net Income (Loss) Attributable to Redeemable Noncontrolling Interests in the accompanying condensed consolidated statements of operations.

When redeemable amounts become legally payable to fund investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the accompanying condensed consolidated statements of financial condition. For all consolidated investment vehicles and funds in which redemption rights have not been granted, noncontrolling interests are presented within Equity in the accompanying condensed consolidated statements of financial condition as noncontrolling interests.

Noncontrolling Interests

Noncontrolling interests represent (i) noncontrolling interests in consolidated entities and (ii) noncontrolling interests held by KKR Holdings.

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Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities represent the non-redeemable ownership interests in KKR that are held primarily by:

- (i) third party fund investors in KKR's funds;
- (ii) third parties holding an aggregate of 1% of the carried interest received by the general partners of KKR's funds and 1% of KKR's other profits (losses) until a future date; certain former principals and their designees representing a portion of the carried interest received by the general partners of KKR's private equity funds that was allocated to them with respect to private equity investments made during such former principals' tenure with KKR prior to October 1, 2009;
- (iii) certain principals and former principals representing all of the capital invested by or on behalf of the general partners of KKR's private equity funds prior to October 1, 2009 and any returns thereon;
- (iv) third parties in KKR's capital markets business;
- (v) holders of exchangeable equity securities representing ownership interests in a subsidiary of a KKR Group Partnership issued in connection with the acquisition of Avoca; and
- (vi) holders of the 7.375% Series A LLC Preferred Shares of KFN whose rights are limited to the assets of KFN.

Noncontrolling Interests held by KKR Holdings

Noncontrolling interests held by KKR Holdings include economic interests held by principals in the KKR Group Partnerships. Such principals receive financial benefits from KKR's business in the form of distributions received from KKR Holdings and through their direct and indirect participation in the value of KKR Group Partnership Units held by KKR Holdings. These financial benefits are not paid by KKR and are borne by KKR Holdings.

The following table presents the calculation of noncontrolling interests held by KKR Holdings:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Balance at the beginning of the period	\$4,827,384	\$5,082,655	\$4,661,679	\$5,116,761
Net income (loss) attributable to noncontrolling interests held by KKR Holdings (a)	(166,078)	100,910	398,633	588,500
Other comprehensive income (loss), net of tax (b)	(2,516)	(11,105)	(10,048)	(7,764)
Impact of the exchange of KKR Holdings units to KKR & Co. L.P. common units (c)	(37,062)	(47,858)	(162,615)	(292,380)
Equity based compensation	15,515	34,611	53,149	114,923
Capital contributions	254	656	804	1,504
Capital distributions	(154,597)	(272,335)	(458,702)	(634,010)
Balance at the end of the period	\$4,482,900	\$4,887,534	\$4,482,900	\$4,887,534

- (a) Refer to the table below for calculation of Net income (loss) attributable to noncontrolling interests held by KKR Holdings.
- (b) Calculated on a pro rata basis based on the weighted average KKR Group Partnership Units held by KKR Holdings during the reporting period.
- (c) Calculated based on the proportion of KKR Holdings units exchanged for KKR & Co. L.P. common units pursuant to the exchange agreement during the reporting period. The exchange agreement provides for the exchange of KKR Group Partnership Units held by KKR Holdings for KKR & Co. L.P. common units.

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Net income (loss) attributable to KKR & Co. L.P. after allocation to noncontrolling interests held by KKR Holdings, with the exception of certain tax assets and liabilities that are directly allocable to KKR Management Holdings Corp., is attributed based on the percentage of the weighted average KKR Group Partnership Units held by KKR and KKR Holdings, each of which hold equity of the KKR Group Partnerships. However, primarily because of the (i) contribution of certain expenses

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borne entirely by KKR Holdings, (ii) the periodic exchange of KKR Holdings units for KKR & Co. L.P. common units pursuant to the exchange agreement and (iii) the contribution of certain expenses borne entirely by KKR associated with the KKR & Co. L.P. 2010 Equity Plan (“Equity Incentive Plan”), equity allocations shown in the condensed consolidated statement of changes in equity differ from their respective pro-rata ownership interests in KKR’s net assets.

The following table presents net income (loss) attributable to noncontrolling interests held by KKR Holdings:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income (loss)	\$(1,217,895)	\$872,044	\$4,030,982	\$4,928,706
Less: Net income (loss) attributable to Redeemable Noncontrolling Interests	(12,925)	(2,462)	(11,883)	1,366
Less: Net income (loss) attributable to Noncontrolling Interests in consolidated entities and appropriated capital	(848,304)	683,658	3,188,007	3,860,646
Plus: Income tax / (benefit) attributable to KKR Management Holdings Corp.	(14,745)	20,427	8,866	32,062
Net income (loss) attributable to KKR & Co. L.P. and KKR Holdings	\$(371,411)	\$211,275	\$863,724	\$1,098,756
Net income (loss) attributable to noncontrolling interests held by KKR Holdings	\$(166,078)	\$100,910	\$398,633	\$588,500

Investments

Investments consist primarily of private equity, real assets, credit, investments of consolidated CFEs, and other investments. Investments are carried at their estimated fair values, with unrealized gains or losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Investments denominated in currencies other than the U.S. dollar are valued based on the spot rate of the respective currency at the end of the reporting period with changes related to exchange rate movements reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Security and loan transactions are recorded on a trade date basis. Further disclosure on investments is presented in Note 4, “Investments.”

The following describes the types of securities held within each investment class.

Private Equity — Consists primarily of equity investments in operating businesses.

Real Assets — Consists primarily of investments in (i) energy related assets, principally oil and natural gas producing properties held through consolidated investment vehicles, (ii) infrastructure assets, and (iii) real estate, principally residential and commercial real estate assets and businesses.

Credit — Consists primarily of investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans), distressed and opportunistic debt and interests in unconsolidated CLOs.

Investments of Consolidated CFEs — Consists primarily of (i) investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans) held directly by the consolidated CLOs and (ii) investments in newly originated, fixed-rate mortgage loans held directly by the consolidated CMBS vehicles.

Other — Consists primarily of (i) investments in common stock, preferred stock, warrants and options of companies that are not private equity, real assets, credit or investments of consolidated CFEs and (ii) equity method investments.

Energy Investments Held Through Consolidated Investment Vehicles

Certain energy investments are made through KKR's consolidated investment funds, including investments in working and royalty interests in oil and natural gas producing properties as well as investments in operating companies that operate in the energy industry. Since these investments are held through investment funds, such investments are reflected at fair value as of the end of the reporting period.

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Investments in operating companies that are held through KKR's investment funds are generally classified within private equity investments and investments in working and royalty interests in oil and natural gas producing properties are generally classified as real asset investments. See also "Energy Investments held directly by KKR" within this footnote.

Equity Method

Equity method investments include (i) certain investments in private equity funds, real assets funds and credit funds, which are not consolidated, and (ii) certain investments in operating companies in which KKR is deemed to exert significant influence. Under the equity method of accounting, KKR's share of earnings (losses) from equity method investments is reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Because the underlying investments of unconsolidated investment funds are reported at fair value, the carrying value of these equity method investments representing KKR's interests in unconsolidated funds approximates fair value. The carrying value of equity method investments in certain operating companies, which KKR is determined to exert significant influence, is determined based on the amounts invested by KKR, adjusted for the equity in earnings or losses of the investee allocated based on KKR's respective ownership percentage, less distributions. In some cases, KKR has elected the fair value option to account for certain of these equity method investments.

Fair Value Measurements

Investments and other financial instruments are measured and carried at fair value. The majority of investments and other financial instruments are held by the consolidated funds and vehicles. KKR's funds are, for GAAP purposes, investment companies and reflect their investments and other financial instruments at fair value. KKR has retained the specialized accounting for the consolidated funds and vehicles in consolidation. Accordingly, the unrealized gains and losses resulting from changes in fair value of the investments held by KKR's funds are reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations.

For investments and other financial instruments that are not held in a consolidated fund or vehicle, KKR has elected the fair value option since these investments and other financial instruments are similar to those in the consolidated funds and vehicles. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. Unrealized gains and losses resulting from changes in fair value are reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. The methodology for measuring the fair value of such investments and other financial instruments is consistent with the methodologies applied to investments and other financial instruments that are held in consolidated funds and vehicles. In addition, KKR has elected the fair value option for the investments of consolidated CFEs.

The carrying amounts of Other Assets, Accounts Payable, Accrued Expenses and Other Liabilities recognized on the condensed consolidated statements of financial condition (excluding fixed assets, goodwill, intangible assets, oil & gas assets, net, contingent consideration and certain debt obligations) approximate fair value due to their short term maturities. Further information on KKR's debt obligations are presented in Note 9, "Debt Obligations."

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve varying levels of management estimation and judgment, the degree of which is dependent on a variety of factors. See Note 5, "Fair Value Measurements" for further information on KKR's valuation techniques that involve unobservable inputs. Assets and liabilities recorded at fair value in the statements of financial condition are categorized based upon the level of judgment associated with the

inputs used to measure their fair value. Hierarchical levels, as defined under GAAP, are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets and liabilities. The hierarchical levels defined under GAAP are as follows:

Level I

Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The type of investments and other financial instruments included in this category are publicly-listed equities, debt and securities sold short.

Level II

Inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level II inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the

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asset or liability. The type of investments and other financial instruments included in this category are credit investments, investments and debt obligations of consolidated CMBS vehicles and consolidated CLO entities (beginning on January 1, 2015), convertible debt securities indexed to publicly-listed securities, less liquid and restricted equity securities and certain over-the-counter derivatives such as foreign currency option and forward contracts.

Level III

Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The types of assets and liabilities generally included in this category are private portfolio companies, real assets investments, credit investments and debt obligations of consolidated CLOs (prior to January 1, 2015) for which a sufficiently liquid trading market does not exist.

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

A significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be representative of fair value because in such market conditions there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument has recently been issued, whether the instrument is traded on an active exchange or in the secondary market, and current market conditions. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by KKR in determining fair value is greatest for instruments categorized in Level III. The variability and availability of the observable inputs affected by the factors described above may cause transfers between Levels I, II, and III, which KKR recognizes at the beginning of the reporting period.

Investments and other financial instruments that have readily observable market prices (such as those traded on a securities exchange) are stated at the last quoted sales price as of the reporting date. KKR does not adjust the quoted price for these investments, even in situations where KKR holds a large position and a sale could reasonably affect the quoted price.

Management's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors.

Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity

As of January 1, 2015, KKR has adopted the measurement alternative included in ASU 2014-13, "Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity" ("ASU 2014-13"), and has applied the amendments using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of January 1, 2015. Refer to the condensed consolidated statements of changes in equity for the impact of this adjustment. Pursuant to ASU 2014-13, KKR measures both the financial assets and financial liabilities of the

consolidated CFEs in its condensed consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities.

Prior to the adoption of ASU 2014-13, KKR elected the fair value option for the assets and liabilities of the consolidated CLO vehicles. As of January 1, 2015, KKR did not hold any beneficial interests in any CMBS vehicle, and consequently did not consolidate any CMBS vehicles. KKR accounted for the difference between the fair value of the assets and the fair value of the liabilities of the consolidated CLOs in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. This amount was attributed to KKR and third party beneficial interest holders based on each beneficial holder's residual interest in the consolidated CLOs. The amount attributed to third party beneficial interest holders was reflected in the condensed consolidated statements of operations in Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital and in the condensed consolidated statements of financial condition in Appropriated Capital within Equity. The amount was recorded as Appropriated Capital since the other holders of the CLOs' beneficial interests, not KKR, received the benefits or absorbed the losses associated with their proportionate share of the CLOs' assets and liabilities.

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Pursuant to the adoption of ASU 2014-13, KKR is required to determine whether the fair value of the financial assets or financial liabilities are more observable. For the consolidated CLO entities, KKR has determined that the fair value of the financial assets of the consolidated CLOs, which are Level II assets within the GAAP hierarchical levels, are more observable than the fair value of the financial liabilities of the consolidated CLOs, which are Level III liabilities. As a result, the financial assets of the consolidated CLOs are being measured at fair value and the financial liabilities are being measured in consolidation as: (1) the sum of the fair value of the financial assets and the carrying value of any nonfinancial assets that are incidental to the operations of the CLOs less (2) the sum of the fair value of any beneficial interests retained by KKR (other than those that represent compensation for services) and KKR's carrying value of any beneficial interests that represent compensation for services. The resulting amount is allocated to the individual financial liabilities (other than the beneficial interests retained by KKR).

For the consolidated CMBS vehicles, KKR has determined that the fair value of the financial liabilities of the consolidated CMBS vehicles, which are Level II liabilities within the GAAP hierarchical levels, are more observable than the fair value of the financial assets of the consolidated CMBS vehicles, which are Level III assets. As a result, the financial liabilities of the consolidated CMBS vehicles are being measured at fair value and the financial assets are being measured in consolidation as: (1) the sum of the fair value of the financial liabilities (other than the beneficial interests retained by KKR), the fair value of the beneficial interests retained by KKR and the carrying value of any nonfinancial liabilities that are incidental to the operations of the CMBS vehicles less (2) the carrying value of any nonfinancial assets that are incidental to the operations of the CMBS vehicles. The resulting amount is allocated to the individual financial assets.

Under the measurement alternative pursuant to ASU 2014-13, KKR's condensed consolidated net income (loss) reflects KKR's own economic interests in the consolidated CFEs including (i) changes in the fair value of the beneficial interests retained by KKR and (ii) beneficial interests that represent compensation for services rendered.

Level II Valuation Methodologies

Financial assets and liabilities categorized as Level II consist primarily of credit investments, investments and debt obligations of consolidated CFEs, convertible debt securities indexed to publicly-listed securities, less liquid and restricted equity securities and certain over-the-counter derivatives such as foreign currency option and forward contracts.

Credit investments, investments of consolidated CLOs and CMBS debt obligations: These instruments generally have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that KKR and others are willing to pay for an instrument. Ask prices represent the lowest price that KKR and others are willing to accept for an instrument. For financial assets and liabilities whose inputs are based on bid-ask prices obtained from third party pricing services, fair value may not always be a predetermined point in the bid-ask range. KKR's policy is generally to allow for mid-market pricing and adjusting to the point within the bid-ask range that meets KKR's best estimate of fair value.

Securities indexed to publicly listed securities: The securities are typically valued using standard convertible security pricing models. The key inputs into these models that require some amount of judgment are the credit spreads utilized and the volatility assumed. To the extent the company being valued has other outstanding debt securities that are publicly-traded, the implied credit spread on the company's other outstanding debt securities would be utilized in the valuation. To the extent the company being valued does not have other outstanding debt securities that are publicly-traded, the credit spread will be estimated based on the implied credit spreads observed in comparable publicly-traded debt securities. In certain cases, an additional spread will be added to reflect an illiquidity discount due to the fact that the security being valued is not publicly-traded. The volatility assumption is based upon the historically observed volatility of the underlying equity security into which the convertible debt security is convertible and/or the volatility implied by the prices of options on the underlying equity security.

Restricted Equity Securities: The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

Derivatives: The valuation incorporates observable inputs comprising yield curves, foreign currency rates and credit spreads.

CLO Debt Obligations: Beginning on January 1, 2015 with the adoption of ASU 2014-13, KKR measures CLO debt obligations on the basis of the fair value of the financial assets of the CLO.

Investments of consolidated CMBS vehicles: KKR measures the investments of CMBS vehicles on the basis of the fair value of the financial liabilities of the CMBS.

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Level III Valuation Methodologies

Financial assets and liabilities categorized as Level III consist primarily of the following:

Private Equity Investments: KKR generally employs two valuation methodologies when determining the fair value of a private equity investment. The first methodology is typically a market comparables analysis that considers key financial inputs and recent public and private transactions and other available measures. The second methodology utilized is typically a discounted cash flow analysis, which incorporates significant assumptions and judgments. Estimates of key inputs used in this methodology include the weighted average cost of capital for the investment and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Other inputs are also used in both methodologies. However, when a definitive agreement has been executed to sell an investment, KKR generally considers a significant determinant of fair value to be the consideration to be received by KKR pursuant to the executed definitive agreement.

Upon completion of the valuations conducted using these methodologies, a weighting is ascribed to each method, and an illiquidity discount is typically applied where appropriate. The ultimate fair value recorded for a particular investment will generally be within a range suggested by the two methodologies, except that the value may be higher or lower than such range in the case of investments being sold pursuant to an executed definitive agreement.

When determining the weighting ascribed to each valuation methodology, KKR considers, among other factors, the availability of direct market comparables, the applicability of a discounted cash flow analysis, the expected hold period and manner of realization for the investment, and in the case of investments being sold pursuant to an executed definitive agreement, the probability of such sale being completed. These factors can result in different weightings among investments in the portfolio and in certain instances may result in up to a 100% weighting to a single methodology. Across the Level III private equity investment portfolio, approximately 58.7% of the fair value is derived from investments that are valued based exactly 50% on market comparables and 50% on a discounted cash flow analysis. Less than 5% of the fair value of the Level III private equity investment portfolio is derived from investments that are valued either based 100% on market comparables or 100% on a discounted cash flow analysis.

When an illiquidity discount is to be applied, KKR seeks to take a uniform approach across its portfolio and generally applies a minimum 5% discount to all private equity investments. KKR then evaluates such private equity investments to determine if factors exist that could make it more challenging to monetize the investment and, therefore, justify applying a higher illiquidity discount. These factors generally include (i) whether KKR is unable to sell the portfolio company or conduct an initial public offering of the portfolio company due to the consent rights of a third party or similar factors, (ii) whether the portfolio company is undergoing significant restructuring activity or similar factors and (iii) characteristics about the portfolio company regarding its size and/or whether the portfolio company is experiencing, or expected to experience, a significant decline in earnings. These factors generally make it less likely that a portfolio company would be sold or publicly offered in the near term at a price indicated by using just a market multiples and/or discounted cash flow analysis, and these factors tend to reduce the number of opportunities to sell an investment and/or increase the time horizon over which an investment may be monetized. Depending on the applicability of these factors, KKR determines the amount of any incremental illiquidity discount to be applied above the 5% minimum, and during the time KKR holds the investment, the illiquidity discount may be increased or decreased, from time to time, based on changes to these factors. The amount of illiquidity discount applied at any time requires considerable judgment about what a market participant would consider and is based on the facts and circumstances of each individual investment. Accordingly, the illiquidity discount ultimately considered by a market participant upon the realization of any investment may be higher or lower than that estimated by KKR in its valuations.

Real Assets Investments: Real asset investments in infrastructure, energy and real estate are valued using one or more of the discounted cash flow analysis, market comparables analysis and direct income capitalization, which in each case incorporates significant assumptions and judgments. Infrastructure investments are generally valued using the discounted cash flow analysis. Key inputs used in this methodology include the weighted average cost of capital and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Energy investments are generally valued using a discounted cash flow analysis. Key inputs used in this methodology that require estimates include the weighted average cost of capital. In addition, the valuations of energy investments generally incorporate both commodity prices as quoted on indices and long-term commodity price forecasts, which may be substantially different from, and are currently higher than, commodity prices on certain indices for equivalent future dates. Certain energy investments do not include an illiquidity discount. Long-term commodity price forecasts are utilized to capture the value of the investments across a range of commodity prices within the energy investment portfolio associated with future development and to reflect a range of price expectations. Real estate investments are generally valued using a combination of direct income capitalization and discounted cash flow analysis. Key inputs used in such methodologies that require estimates include an unlevered discount rate and current capitalization rate, and

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certain real estate investments do not include a minimum illiquidity discount. The valuations of real assets investments also use other inputs.

Credit 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 KKR based on ranges of valuations determined by an independent valuation firm. Valuation models are based on discounted cash flow analyses, for which the key inputs are determined based on market comparables, which incorporate similar instruments from similar issuers.

Other Investments: With respect to other investments including equity method investments for which the fair value election has been made, KKR generally employs the same valuation methodologies as described above for private equity investments when valuing these other investments.

CLO Debt Obligations: Prior to January 1, 2015 and the adoption of ASU 2014-13, collateralized loan obligation senior secured and subordinated notes were initially valued at the transaction price and were subsequently valued using a third party valuation service. The approach used to estimate the fair values was the discounted cash flow method, which includes consideration of the cash flows of the debt obligation based on projected quarterly interest payments and quarterly amortization. The debt obligations were discounted based on the appropriate yield curve given the debt obligation's respective maturity and credit rating. The most significant inputs to the valuation of these financial instruments were default and loss expectations and discount margins. As described above in Fair Value Measurements - Summary of Significant Accounting Policies - Level II Valuation Methodologies, beginning on January 1, 2015, with the adoption of ASU 2014-13, KKR measures CLO debt obligations on the basis of the fair value of the financial assets of the CLO.

Key unobservable inputs that have a significant impact on KKR's Level III investment valuations as described above are included in Note 5 "Fair Value Measurements." KKR utilizes several unobservable pricing inputs and assumptions in determining the fair value of its Level III investments. These unobservable pricing inputs and assumptions may differ by investment and in the application of KKR's valuation methodologies. KKR's reported fair value estimates could vary materially if KKR had chosen to incorporate different unobservable pricing inputs and other assumptions or, for applicable investments, if KKR only used either the discounted cash flow methodology or the market comparables methodology instead of assigning a weighting to both methodologies.

Level III Valuation Process

The valuation process involved for Level III measurements is completed on a quarterly basis and is designed to subject the valuation of Level III investments to an appropriate level of consistency, oversight, and review. KKR has a Private Markets valuation committee for private equity and real assets investments and a valuation committee for credit and credit-related investments. The Private Markets valuation committee is assisted by subcommittees in the valuation of real asset and growth equity investments, and is also assisted by a valuation team. Except as noted below, the Private Markets valuation committee is comprised only of employees who are not investment professionals responsible for preparing preliminary valuations or for oversight of the investments being valued. The valuation teams and subcommittees for real asset and growth equity investments, however, include investment professionals who participate in the preparation of preliminary valuations or are responsible for oversight for those investments. The credit valuation committee is also assisted by a valuation team. The credit valuation teams include investment professionals responsible for preparing preliminary valuations or for oversight of the investments being valued. The credit valuation committee is comprised of investment professionals with no responsibility for preparing preliminary valuations, but certain committee members are responsible for oversight of the investments being valued. The valuation committees and teams are responsible for coordinating and consistently implementing KKR's quarterly valuation policies, guidelines and processes. For Private Markets investments classified as Level III, investment professionals prepare preliminary valuations based on their evaluation of financial and operating data, company

specific developments, market valuations of comparable companies and other factors. These preliminary valuations are reviewed with the investment professionals by the applicable valuation team and are also reviewed by an independent valuation firm engaged by KKR to perform certain procedures in order to assess the reasonableness of KKR's valuations annually for all Level III investments in Private Markets and quarterly for investments other than certain investments, which are less than pre-set value thresholds and which in the aggregate comprise less than 5% of the total value of KKR's Level III Private Markets investments. For most investments classified as Level III in credit, in general, an independent valuation firm is engaged by KKR to provide third party valuations, or ranges of valuations from which KKR's investment professionals select a point in the range to determine the preliminary valuation, or an independent valuation firm is engaged by KKR to perform certain procedures in order to assess the reasonableness and provide positive assurance of KKR's valuations. These preliminary valuations are reviewed by senior investment professionals for each credit strategy. All preliminary valuations in Private Markets and Public Markets are then reviewed by the applicable valuation committee, and after reflecting any input by their respective valuation committees, the preliminary valuations are presented to the firm's management committee. When these valuations are approved by this

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committee after reflecting any input from it, the valuations of Level III investments, as well as the valuations of Level I and Level II investments, are presented to the audit committee of KKR's board of directors and are then reported on to the board of directors.

Energy Investments Held Directly by KKR

KKR makes certain energy investments directly in working and royalty interests in oil and natural gas producing properties outside its investment funds, which as a result of the acquisition of KKR Financial Holdings LLC ("KFN") on April 30, 2014 became more significant. Oil and natural gas producing activities are accounted for under the successful efforts method of accounting and such working interests are consolidated based on the proportion of the working interests held by KKR. Accordingly, KKR reflects its proportionate share of the underlying statements of financial condition and statements of operations of the consolidated working interests on a gross basis and changes in the value of these working interests are not reflected as unrealized gains and losses in the condensed consolidated statements of operations. Under the successful efforts method, exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. Costs that are associated with the drilling of successful exploration wells are capitalized if proved reserves are found. Lease acquisition costs are capitalized when incurred. Costs associated with the drilling of exploratory wells that do not find proved reserves, geological and geophysical costs and costs of certain nonproducing leasehold costs are charged to expense as incurred.

Expenditures for repairs and maintenance, including workovers, are charged to expense as incurred.

The capitalized costs of producing oil and natural gas properties are depleted on a field-by-field basis using the units-of production method based on the ratio of current production to estimated total net proved oil, natural gas and natural gas liquid reserves. Proved developed reserves are used in computing depletion rates for drilling and development costs and total proved reserves are used for depletion rates of leasehold costs.

Estimated dismantlement and abandonment costs for oil and natural gas properties, net of salvage value, are capitalized at their estimated net present value and amortized on a unit-of-production basis over the remaining life of the related proved developed reserves.

Whenever events or changes in circumstances indicate that the carrying amounts of oil and natural gas properties may not be recoverable, KKR evaluates the proved oil and natural gas properties and related equipment and facilities for impairment on a field-by-field basis. The determination of recoverability is made based upon estimated undiscounted future net cash flows. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flow analysis, with the carrying value of the related asset. Unproved oil and natural gas properties are assessed periodically and, at a minimum, annually on a property-by-property basis, and any impairment in value is recognized when incurred and is recorded in General, Administrative, and Other expense in the condensed consolidated statements of operations.

Fees and Other

Fees and other 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, CLOs, other vehicles, and separately managed accounts, (iii) monitoring fees from providing services to portfolio companies, (iv) revenue earned by oil and gas-producing entities that are consolidated and (v) consulting fees earned by entities that employ non-employee operating consultants.

For the three and nine months ended September 30, 2015 and 2014, respectively, fees and other consisted of the following:

Three Months Ended September 30,	Nine Months Ended September 30,
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	2015	2014	2015	2014
Transaction Fees	\$57,933	\$153,604	\$238,608	\$380,580
Management Fees	50,199	52,904	149,941	161,772
Monitoring Fees	39,915	51,489	217,327	142,902
Oil and Gas Revenue	29,620	69,380	90,264	143,369
Consulting Fees	10,802	10,096	28,082	32,581
Incentive Fees	157	7,295	11,623	35,860
Total Fees and Other	\$188,626	\$344,768	\$735,845	\$897,064

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All fees presented in the table above, except for oil and gas revenue, are earned from KKR investment funds, vehicles and portfolio companies. Consulting fees are earned by certain consolidated entities that employ non-employee operating consultants from providing advisory and other services to portfolio companies and other companies and are recognized as the services are rendered. These fees are separately negotiated with each company for which services are provided and are not shared with KKR.

Transaction, Management, Monitoring, Consulting, and Incentive Fees Recognition

Transaction, management, monitoring, consulting and incentive fees are recognized when earned based on the contractual terms of the governing agreements and coincides with the period during which the related services are performed. In the case of transaction fees, the fees are recognized 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.

Oil and Gas Revenue Recognition

Oil and gas revenues are recognized when production is sold to a purchaser at fixed or determinable prices, when delivery has occurred and title has transferred and collectability of the revenue is reasonably assured. The oil and gas producing entities consolidated by KKR follow the sales method of accounting for natural gas revenues. Under this method of accounting, revenues are recognized based on volumes sold, which may differ from the volume to which the entity is entitled based on KKR's working interest. An imbalance is recognized as a liability only when the estimated remaining reserves will not be sufficient to enable the under-produced owners to recoup their entitled share through future production. Under the sales method, no receivables are recorded when these entities have taken less than their share of production and no payables are recorded when it has taken more than its share of production unless reserves are not sufficient.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers Topic 606 ("ASU 2014-09") which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Revenue recorded under ASU 2014-09 will depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. Early adoption will be permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. A full retrospective or modified retrospective approach is required. KKR is currently evaluating the impact the adoption of this guidance may have on its financial statements, including with respect to the timing of the recognition of carried interest.

Measurement of Financial Assets and Liabilities - Consolidated Collateralized Financing Entities

In August 2014, the FASB issued ASU 2014-13, "Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity" ("CFE"), such as CLO and CMBS vehicles. ASU 2014-13 provides an entity with an election to measure the financial assets and financial liabilities of a consolidated CFE on the basis of either the fair value of the CFE's financial assets or financial liabilities, whichever is more observable. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015.

Early adoption is permitted and this guidance was early adopted by KKR on January 1, 2015 using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the annual period. Refer above to Variable Interest Entities - Collateralized Loan Obligations.

Going Concern

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). The guidance in ASU 2014-15 sets forth management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity’s ability to continue as a going concern for one year from the date the financial statements are issued or are available

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to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early adoption is permitted, and a prospective approach is required. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

Derivatives and Hedging

In November 2014, the FASB issued ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity ("ASU 2014-16"). The guidance in ASU 2014-16 states that implied substantive terms and features of a hybrid financial instrument issued in the form of a stock should weigh each term and feature on the basis of relevant facts and circumstances. An entity should determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. ASU 2014-16 is effective for reporting periods starting after December 15, 2015 and for interim periods within the fiscal year. Early adoption is permitted, and a retrospective approach is permitted but not required. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). The guidance in ASU 2015-02 eliminates the presumption that a general partner should consolidate a limited partnership and also eliminates the consolidation model specific to limited partnerships. The amendments also clarify how to treat fees paid to an asset manager or other entity that makes the decisions for the investment vehicle and whether such fees should be considered in determining when a variable interest entity should be reported on an asset manager's balance sheet. ASU 2015-02 is effective for reporting periods starting after December 15, 2015 and for interim periods within the fiscal year. Early adoption is permitted, and a full retrospective or modified retrospective approach is required. KKR is evaluating the impact on its financial statements and expects to deconsolidate a significant number of investment funds, vehicles and entities upon adoption of this guidance.

Interest - Imputation of Interest

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The guidance in ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB clarified that line-of-credit arrangements are outside the scope of ASU 2015-03. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, and a retrospective approach is required. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share

In May 2015, the FASB issued amended guidance on the disclosures for investments in certain entities that calculate net asset value per share (or its equivalent). The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical

expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods within those years. The guidance shall be applied retrospectively for all periods presented. Early application is permitted. The guidance is not expected to have a material impact on KKR's financial statements.

Business Combination Measurement-Period Adjustments

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). The guidance states that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation or amortization, or other income effects (if any) as a result of

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the change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively.

Additionally, ASU 2015-16 requires that the acquirer present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for reporting periods beginning after December 15, 2015, including interim periods within those reporting periods. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

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3. NET GAINS (LOSSES) FROM INVESTMENT ACTIVITIES

Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations consist primarily of the realized and unrealized gains and losses on investments (including foreign exchange gains and losses attributable to foreign denominated investments and related activities) and other financial instruments, including those for which the fair value option has been elected. Unrealized gains or losses result from changes in the fair value of these investments and other financial instruments during a period. Upon disposition of an investment or financial instrument, previously recognized unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the current period.

The following table summarizes total Net Gains (Losses) from Investment Activities for the three and nine months ended September 30, 2015 and 2014, respectively:

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014		Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)
Private Equity (a)	\$939,218	\$(1,751,892)	\$917,917	\$(688,912)	\$3,916,131	\$(1,557)	\$4,459,039	\$(658,948)
Credit and Other (a)	(49,052)	(487,939)	39,541	(220,033)	\$45,247	\$(522,364)	242,286	44,792
Investments of Consolidated CFEs (a)	(341)	(157,045)	1,764	(142,208)	\$(26,494)	\$(79,651)	8,144	(103,138)
Real Assets (a)	7,319	(225,965)	24,466	38,530	\$14,824	\$(162,065)	227,820	(264,968)
Foreign Exchange Forward Contracts and Options (b)	98,191	(4,324)	(19,610)	385,840	\$305,541	\$34,799	(31,405)	428,690
Securities Sold Short (b)	8,539	6,409	(12,551)	18,423	\$(680)	\$18,607	(35,338)	29,483
Other Derivatives	9,176	(23,770)	(3,068)	(11,591)	\$20,699	\$(2,049)	(19,997)	(12,085)
Debt Obligations - Net Gains (Losses) and Other (c)	10,953	64,842	(5,031)	(25,218)	\$60,662	\$(146,902)	(18,938)	(53,148)
Total Net Gains (Losses) from Investment Activities	\$1,024,003	\$(2,579,684)	\$943,428	\$(645,169)	\$4,335,930	\$(861,182)	\$4,831,611	\$(589,322)

(a) See Note 4 "Investments."

- (b) See Note 7 "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities."
(c) See Note 9 "Debt Obligations."

4. INVESTMENTS

Investments consist of the following:

	Fair Value		Cost	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Private Equity	\$35,929,941	\$ 38,222,255	\$27,037,983	\$ 29,317,314
Credit	6,128,843	6,702,740	6,794,944	6,906,583
Investments of Consolidated CFEs	11,769,316	8,559,967	12,096,564	8,815,286
Real Assets	3,823,027	3,130,404	6,205,740	5,354,191
Other	5,054,671	3,552,260	4,764,505	3,182,917
Total Investments	\$62,705,798	\$ 60,167,626	\$56,899,736	\$ 53,576,291

As of September 30, 2015, investments which represented greater than 5% of total investments consisted of Walgreens Boots Alliance, Inc. of \$4.9 billion and First Data Corporation of \$4.5 billion. As of December 31, 2014, investments which represented greater than 5% of total investments consisted of Walgreens Boots Alliance, Inc. of \$5.5 billion and First Data Corporation of \$3.8 billion. In addition, as of September 30, 2015 and December 31, 2014, investments totaling \$14.1 billion and \$11.4 billion, respectively, were pledged as direct collateral against various financing arrangements. See Note 9 "Debt Obligations."

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The following table represents private equity investments by industry as of September 30, 2015 and December 31, 2014:

	Fair Value	
	September 30, 2015	December 31, 2014
Health Care	\$10,009,310	\$10,269,605
Financial Services	6,318,920	5,691,815
Technology	4,518,719	4,262,800
Retail	4,025,188	4,141,276
Manufacturing	3,464,241	4,227,859
Other	7,593,563	9,628,900
	\$35,929,941	\$38,222,255

In the table above, other investments represent private equity investments in the following industries: Consumer Products, Education, Energy, Forestry, Media, Services, Telecommunications, Transportation, Hotel/Leisure, Packaging, Mining, Agriculture and Recycling. None of these industries represents more than 10% of total private equity investments as of September 30, 2015.

The majority of the securities underlying private equity investments represent equity securities. As of September 30, 2015 and December 31, 2014, the fair value of private equity investments that were other than equity securities amounted to \$72.6 million and \$577.0 million, respectively.

5. FAIR VALUE MEASUREMENTS

The following tables summarize the valuation of KKR's assets and liabilities reported at fair value by the fair value hierarchy levels described in Note 2 "Summary of Significant Accounting Policies" as of September 30, 2015 and December 31, 2014 including those investments, other financial instruments and debt obligations of consolidated CFEs for which the fair value option has been elected. Equity Method Investments for which the fair value option has not been elected have been excluded from the tables below.

Assets, at fair value:

	September 30, 2015			Total
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	
Private Equity	\$11,658,178	\$ 128,539	\$ 24,143,224	\$35,929,941
Credit	—	1,602,204	4,526,639	6,128,843
Investments of Consolidated CFEs	—	11,769,316	—	11,769,316
Real Assets	—	—	3,823,027	3,823,027
Other	822,587	551,690	3,140,448	4,514,725
Total	12,480,765	14,051,749	35,633,338	62,165,852
Foreign Exchange Contracts and Options	—	579,647	—	579,647
Other Derivatives	—	4,094	—	4,094
Total Assets	\$12,480,765	\$ 14,635,490	\$ 35,633,338	\$62,749,593

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	December 31, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Private Equity	\$5,940,470	\$ 6,005,764	\$ 26,276,021	\$38,222,255
Credit	—	2,510,038	4,192,702	6,702,740
Investments of Consolidated CFEs	—	8,467,472	92,495	8,559,967
Real Assets	—	—	3,130,404	3,130,404
Other	573,983	276,051	2,133,001	2,983,035
Total	6,514,453	17,259,325	35,824,623	59,598,401
Foreign Exchange Contracts and Options	—	517,088	—	517,088
Other Derivatives	2,246	9,651	—	11,897
Total Assets	\$6,516,699	\$ 17,786,064	\$ 35,824,623	\$60,127,386

Liabilities, at fair value:

	September 30, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Securities Sold Short	\$307,253	\$ 8,872	\$—	\$316,125
Foreign Exchange Contracts and Options	—	102,048	—	102,048
Unfunded Revolver Commitments	—	9,511	—	9,511
Other Derivatives	4,477	60,378	—	64,855
Debt Obligations of Consolidated CFEs	—	11,058,418	—	11,058,418
Total Liabilities	\$311,730	\$ 11,239,227	\$—	\$11,550,957

	December 31, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Securities Sold Short	\$630,794	\$ 2,338	\$—	\$633,132
Foreign Exchange Contracts and Options	—	71,956	—	71,956
Unfunded Revolver Commitments	—	3,858	—	3,858
Other Derivatives	—	75,150	—	75,150
Debt Obligations of Consolidated CFEs	—	—	7,615,340	7,615,340
Total Liabilities	\$630,794	\$ 153,302	\$7,615,340	\$8,399,436

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The following tables summarize changes in assets and liabilities reported at fair value for which Level III inputs have been used to determine fair value for the three and nine months ended September 30, 2015 and 2014, respectively:

Three Months Ended September 30, 2015

	Level III Assets					Total Level III Assets	Level III Liabilities
	Private Equity	Credit	Investments of Consolidated CFEs	Real Assets	Other		Debt Obligations of Consolidated CFEs
Balance, Beg. of Period	\$25,113,442	\$4,705,846	\$—	\$4,058,717	\$2,961,039	36,839,044	\$—
Transfers In (1)	—	—	—	—	—	—	—
Transfers Out (2)	—	—	—	—	—	—	—
Acquisitions	—	—	—	—	—	—	—
Purchases	461,640	333,776	—	1,655	226,950	1,024,021	—
Sales	(1,569,751)	(378,621)	—	(18,701)	(36,893)	(2,003,966)	—
Settlements	—	49,625	—	—	—	49,625	—
Net Realized Gains (Losses)	724,528	(11,041)	—	7,320	2,870	723,677	—
Net Unrealized Gains (Losses)	(586,635)	(162,899)	—	(225,964)	(13,059)	(988,557)	—
Change in Accounting Principle (3)	—	—	—	—	—	—	—
Change in Other Comprehensive Income	—	(10,047)	—	—	(459)	(10,506)	—
Balance, End of Period	\$24,143,224	\$4,526,639	\$—	\$3,823,027	\$3,140,448	35,633,338	\$—
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date	\$78,943	\$(212,570)	\$—	\$(219,689)	\$(2,832)	\$(356,148)	\$—

Three Months Ended September 30, 2014

	Level III Assets					Total Level III Assets	Level III Liabilities
	Private Equity	Credit	Investments of Consolidated CFEs	Real Assets	Other		Debt Obligations of Consolidated CFEs
Balance, Beg. of Period	\$30,914,162	\$3,047,412	\$95,703	\$3,799,200	\$713,190	\$38,569,667	\$7,356,678
Transfers In (1)	—	150,559	—	—	3,397	153,956	—

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Transfers Out (2)	(170,107)	(3,397)	—	—	(6,291)	(179,795)	—
Acquisitions	—	—	—	—	—	—	—
Purchases	2,340,143	474,528	1,327	422,001	502,149	3,740,148	940,940
Sales	(1,469,359)	(295,236)	(6,091)	(134,977)	(60,767)	(1,966,430)	(972,518)
Settlements	—	53,216	869	—	—	54,085	690
Net Realized Gains (Losses)	587,627	26	—	21,319	(3,755)	605,217	—
Net Unrealized Gains (Losses)	(313,762)	(89,150)	(444)	41,705	(18,413)	(380,064)	681
Change in Other Comprehensive Income	—	(11,972)	—	—	—	(11,972)	(98,474)
Balance, End of Period	\$31,888,704	\$3,325,986	\$91,364	\$4,149,248	\$1,129,510	\$40,584,812	\$7,227,997
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date	\$319,942	\$(95,460)	\$(444)	\$34,878	\$(16,966)	\$241,950	\$701

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Nine Months Ended September 30, 2015

	Level III Assets					Total Level III Assets	Level III Liabilities
	Private Equity	Credit	Investments of Consolidated CFEs	Real Assets	Other		Debt Obligations of Consolidated CFEs
Balance, Beg. of Period	\$26,276,021	\$4,192,702	\$92,495	\$3,130,404	\$2,133,001	35,824,623	\$7,615,340
Transfers In (1)	—	16,706	108,340	—	1,187	126,233	—
Transfers Out (2)	(3,564,987)	(12,860)	(153,656)	—	(1,710)	(3,733,213)	—
Acquisitions	—	—	—	—	—	—	—
Purchases	1,613,411	1,665,858	1,308	876,031	1,118,323	5,274,931	—
Sales	(2,392,428)	(1,101,702)	(3,138)	(36,169)	(185,567)	(3,719,004)	—
Settlements	—	207,540	(883)	—	—	206,657	—
Net Realized Gains (Losses)	1,069,212	(16,235)	—	14,825	6,365	1,074,167	—
Net Unrealized Gains (Losses)	1,141,995	(419,017)	(44,466)	(162,064)	66,048	582,496	—
Change in Accounting Principle (3)	—	—	—	—	—	—	(7,615,340)
Change in Other Comprehensive Income	—	(6,353)	—	—	2,801	(3,552)	—
Balance, End of Period	\$24,143,224	\$4,526,639	\$—	\$3,823,027	\$3,140,448	35,633,338	\$—
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date	\$2,088,462	\$(512,725)	\$—	\$(148,785)	\$46,154	\$1,473,106	\$—

Nine Months Ended September 30, 2014

	Level III Assets					Total Level III Assets	Level III Liabilities
	Private Equity	Credit	Investments of Consolidated CFEs	Real Assets	Other		Debt Obligations of Consolidated CFEs
Balance, Beg. of Period	\$29,082,505	\$1,944,464	\$—	\$3,300,674	\$348,486	34,676,129	\$—
Transfers In (1)	—	150,559	—	—	3,397	153,956	—

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Transfers Out (2)	(1,428,691)	(4,627)	—	—	(202,010)	(1,635,328)	—
Acquisitions	82,986	539,247	97,996	197,471	52,502	970,202	6,814,217
Purchases	5,492,831	1,360,129	4,884	1,120,505	967,494	8,945,843	1,661,904
Sales	(4,334,889)	(736,963)	(12,188)	(426,095)	(98,636)	(5,608,771)	(1,169,533)
Settlements	—	114,174	295	—	—	114,469	3,988
Net Realized Gains (Losses)	1,911,995	(4,006)	—	222,626	(4,024)	2,126,591	—
Net Unrealized Gains (Losses)	1,081,967	(23,032)	377	(265,933)	62,301	855,680	15,895
Change in Other Comprehensive Income	—	(13,959)	—	—	—	(13,959)	(98,474)
Balance, End of Period	\$31,888,704	\$3,325,986	\$91,364	\$4,149,248	\$1,129,510	\$40,584,812	\$7,227,997
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date	\$3,134,239	\$(6,555)	\$(239)	\$(272,760)	\$66,730	2,921,415	\$15,915

The Transfers In noted in the tables above for credit, investments of consolidated CFEs and other investments are (1) principally attributable to certain investments that experienced an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

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The Transfers Out noted in the tables above for private equity investments are attributable to portfolio companies that are now valued using their publicly traded market price. The Transfers Out noted above for credit, investments of consolidated CFEs and other investments are principally attributable to certain investments that experienced a higher level of market activity during the period and thus were valued using observable inputs.

Upon adoption of ASU 2014-13, the debt obligations of consolidated CLOs are no longer Level III financial liabilities under the GAAP fair value hierarchy. As of September 30, 2015, the debt obligations of consolidated CLOs are measured on the basis of the fair value of the financial assets of the CLO and are classified as Level II financial liabilities. See Note 2 " Summary of Significant Accounting Policies".

Total realized and unrealized gains and losses recorded for Level III investments are reported in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. For private equity investments, there was one transfer for \$4,448.0 million for the three months ended September 30, 2015 and two transfers for \$4,915.8 million for the nine months ended September 30, 2015 between Level I and Level II investments. There was one transfer for \$318.9 million between Level I and Level II for private equity investments during the nine months ended September 30, 2014. Both transfers were attributable to portfolio companies that are now valued using their publicly traded market prices.

The following table presents additional information about valuation methodologies and significant unobservable inputs used for investments that are measured at fair value and categorized within Level III as of September 30, 2015:

	Fair Value September 30, 2015	Valuation Methodologies	Unobservable Input(s) (1)	Weighted Average (2)	Range	Impact to Valuation from an Increase in Input (3)		
Private Equity Investments	\$24,143,224							
Financial Services	\$6,079,470	Inputs to market comparable, discounted cash flow and transaction cost	Illiquidity Discount	6.1%	5% - 15%	Decrease		
			Weight Ascribed to Market Comparables	30.1%	0% - 100%	(4)		
			Weight Ascribed to Discounted Cash Flow	25.6%	0% - 50%	(5)		
		Market comparables		Weight Ascribed to Transaction Price	44.3%	0% - 100%	(6)	
				Enterprise Value/LTM EBITDA Multiple	13.7x	10.5x - 14.1x	Increase	
				Enterprise Value/Forward EBITDA Multiple	12.7x	10.0x - 13.1x	Increase	
				Weighted Average Cost of Capital	11.5%	10.0% - 11.8%	Decrease	
		Discounted cash flow		Enterprise Value/LTM EBITDA Exit Multiple	10.5x	10.5x - 10.5x	Increase	
Technology	\$3,544,757	Inputs to market comparable, discounted cash flow and	Illiquidity Discount	9.4%	5% - 20%	Decrease		
			Weight Ascribed to Market Comparables	36.5%	0% - 50%	(4)		
				42.0%		(5)		

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		transaction cost	Weight Ascribed to Discounted Cash Flow		5% - 100%	
			Weight Ascribed to Transaction Price	21.5%	0% - 90%	(6)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	12.6x	3.6x - 17.0x	Increase
			Enterprise Value/Forward EBITDA Multiple	11.2x	3.6x - 14.6x	Increase
		Discounted cash flow	Weighted Average Cost of Capital	11.5%	7.8% - 35.0%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	10.2x	5.5x - 25.3x	Increase
Retail	\$3,401,625	Inputs to market comparable and discounted cash flow	Illiquidity Discount	8.1%	5% - 20%	Decrease
			Weight Ascribed to Market Comparables	50.0%	0% - 50%	(4)
			Weight Ascribed to Discounted Cash Flow	50.0%	50% - 100%	(5)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	11.3x	6.9x - 14.1x	(7) Increase
			Enterprise Value/Forward EBITDA Multiple	10.1x	6.7x - 12.1x	(7) Increase
		Discounted cash flow	Weighted Average Cost of Capital	11.2%	9.7% - 24.5%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	8.3x	6.0x - 10.0x	Increase
Manufacturing	\$3,141,311	Inputs to market comparable and discounted cash flow	Illiquidity Discount	8.5%	5% - 15%	Decrease
			Weight Ascribed to Market Comparables	45.5%	33% - 50%	(4)
			Weight Ascribed to Discounted Cash Flow	54.5%	50% - 67%	(5)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	11.2x	7.7x - 20.7x	Increase
			Enterprise Value/Forward EBITDA Multiple	10.3x	7.3x - 16.4x	Increase
			Control Premium	20.0%	20% - 20%	(8) Increase
		Discounted cash flow	Weighted Average Cost of Capital	13.2%	9.8% - 21.7%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	9.3x	7.0x - 10.5x	Increase

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Other	\$7,976,061		Illiquidity Discount	10.5%	5% - 20%	Decrease
		Inputs to market comparable, discounted cash flow and transaction cost	Weight Ascribed to Market Comparables	42.0%	0% - 50%	(4)
			Weight Ascribed to Discounted Cash Flow	52.3%	5% - 100%	(5)
			Weight Ascribed to Transaction Price	5.7%	0% - 90%	(6)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	11.7x	7.7x - 32.0x	Increase
			Enterprise Value/Forward EBITDA Multiple	10.0x	5.2x - 15.4x	Increase
			Control Premium	16.2%	10% - 20%	(8) Increase
		Discounted cash flow	Weighted Average Cost of Capital	11.5%	7.4% - 20.0%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	9.6x	6.5x - 12.0x	Increase
Real Assets	\$3,823,027					
Energy	\$1,331,166	Discounted cash flow	Weighted Average Cost of Capital	12.0%	8.9% - 20.7%	Decrease
			Average Price Per BOE (11)	\$35.95	\$28.09 - \$43.17	Increase
Infrastructure	\$1,304,033	Discounted cash flow	Weighted Average Cost of Capital	7.3%	5.7% - 9.0%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	9.6x	7.8x - 11.0x	Increase
Real Estate	\$1,187,828	Inputs to direct income capitalization and discounted cash flow	Weight Ascribed to Direct Income Capitalization	46.2%	0% - 100%	(10)
			Weight Ascribed to Discounted Cash Flow	53.8%	0% - 100%	(5)
		Direct Income Capitalization	Current Capitalization Rate	6.8%	5.7% - 10.9%	Decrease
		Discounted cash flow	Unlevered Discount Rate	9.7%	6.8% - 20.0%	Decrease
Credit	\$4,526,639 (9)	Yield Analysis	Yield	10.8%	5.4% - 22.5%	Decrease
			Net Leverage	5.8x	0.8x - 35.4x	Decrease
			EBITDA Multiple	7.6x	0.7x - 19.3x	Increase

In the table above, Other Investments, within private equity investments, represents the following industries: Health Care, Consumer Products, Education, Energy, Forestry, Media, Services, Telecommunications, Transportation, Hotels/Leisure, Packaging, Agriculture and Recycling. None of these industries represents more than 10% of total Level III private equity investments as of September 30, 2015.

In determining certain of these inputs, management evaluates a variety of factors including economic conditions, industry and market developments, market valuations of comparable companies and company specific

(1) developments including exit strategies and realization opportunities. Management has determined that market participants would take these inputs into account when valuing the investments. LTM means Last Twelve Months and EBITDA means Earnings Before Interest Taxes Depreciation and Amortization.

(2) Inputs were weighted based on the fair value of the investments included in the range.

Unless otherwise noted, this column represents the directional change in the fair value of the Level III investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input (3) would have the opposite effect. Significant increases and decreases in these inputs in isolation could result in significantly higher or lower fair value measurements.

The directional change from an increase in the weight ascribed to the market comparables approach would increase the fair value of the Level III investments if the market comparables approach results in a higher valuation than the (4) discounted cash flow approach and transaction price. The opposite would be true if the market comparables approach results in a lower valuation than the discounted cash flow approach and transaction price.

The directional change from an increase in the weight ascribed to the discounted cash flow approach would increase the fair value of the Level III investments if the discounted cash flow approach results in a higher (5) valuation than the market comparables approach, transaction price and direct income capitalization approach. The opposite would be true if the discounted cash flow approach results in a lower valuation than the market comparables approach and transaction price.

The directional change from an increase in the weight ascribed to the transaction price would increase the fair value of the Level III investments if the transaction price results in a higher valuation than the market comparables (6) and discounted cash flow approach. The opposite would be true if the transaction price results in a lower valuation than the market comparables approach and discounted cash flow approach.

Ranges shown exclude inputs relating to a single portfolio company that was determined to lack comparability with other investments in KKR's private equity portfolio. This portfolio company had a fair value representing less than (7) 0.5% of the total fair value of Private Equity Investments and had an Enterprise Value/LTM EBITDA Multiple and Enterprise Value/Forward EBITDA Multiple of 22.4x and 19.4x, respectively. The exclusion of this investment does not impact the weighted average.

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- Level III private equity investments whose valuations include a control premium represent less than 5% of total
- (8) Level III private equity investments. The valuations for the remaining investments do not include a control premium.
- (9) Amounts include \$422.9 million of investments that were valued using dealer quotes or third party valuation firms. The directional change from an increase in the weight ascribed to the direct income capitalization approach would increase the fair value of the Level III investments if the direct income capitalization approach results in a higher valuation than the discounted cash flow approach. The opposite would be true if the direct income capitalization approach results in a lower valuation than the discounted cash flow approach.
- (10) The total Energy fair value amount includes multiple investments (in multiple locations throughout North America) that are held in multiple investment funds and produce varying quantities of oil, condensate, natural gas liquids, and natural gas. Commodity price may be measured using a common volumetric equivalent where one barrel of oil equivalent, or BOE, is determined using the ratio of six thousand cubic feet of natural gas to one
- (11) barrel of oil, condensate or natural gas liquids. The price per BOE is provided to show the aggregate of all price inputs for the various investments over a common volumetric equivalent although the valuations for specific investments may use price inputs specific to the asset for purposes of our valuations. The discounted cash flows include forecasted production of liquids (oil, condensate, and natural gas liquids) and natural gas with a forecasted revenue ratio of approximately 67% liquids and 33% natural gas.

In the table above, certain private equity investments may be valued at cost for a period of time after an acquisition as the best indicator of fair value. In addition, certain valuations of private equity investments may be entirely or partially derived by reference to observable valuation measures for a pending or consummated transaction.

The table above excludes Other Investments in the amount of \$3.1 billion comprised primarily of privately-held equity and equity-like securities (e.g. warrants) in companies that are neither private equity, real assets nor credit investments. These investments were valued using Level III valuation methodologies that are generally the same as those shown for private equity investments.

The various unobservable inputs used to determine the Level III valuations may have similar or diverging impacts on valuation. Significant increases and decreases in these inputs in isolation and interrelationships between those inputs could result in significantly higher or lower fair value measurements as noted in the table above.

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6. NET INCOME (LOSS) ATTRIBUTABLE TO KKR & CO. L.P. PER COMMON UNIT

For the three and nine months ended September 30, 2015 and 2014, basic and diluted Net Income (Loss) attributable to KKR & Co. L.P. per common unit were calculated as follows:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Net Income (Loss) Attributable to KKR & Co. L.P.	\$(190,588	) \$89,938	\$456,225	\$478,194
Basic Net Income (Loss) Per Common Unit				
Weighted Average Common Units Outstanding - Basic	452,165,697	419,961,455	444,675,159	364,127,956
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit - Basic	\$(0.42	) \$0.21	\$1.03	\$1.31
Diluted Net Income (Loss) Per Common Unit				
Weighted Average Common Units Outstanding - Basic	452,165,697	419,961,455	444,675,159	364,127,956
Weighted Average Unvested Common Units and Other Exchangeable Securities	—	32,058,287	35,663,176	32,104,872
Weighted Average Common Units Outstanding - Diluted	452,165,697	452,019,742	480,338,335	396,232,828
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit - Diluted	\$(0.42	) \$0.20	\$0.95	\$1.21

Weighted Average Common Units Outstanding—Diluted primarily includes unvested equity awards that have been granted under the Equity Incentive Plan as well as exchangeable equity securities issued in connection with the acquisition of Avoca. Vesting or exchanges of these equity interests dilute KKR and KKR Holdings pro rata in accordance with their respective ownership interests in the KKR Group Partnerships.

For the three months ended September 30, 2015, equity awards granted under the Equity Incentive Plan as well as exchangeable equity securities issued in connection with the acquisition of Avoca have been excluded from the calculation of diluted Net Income (Loss) attributable to KKR & Co. L.P. per common unit since these equity awards and exchangeable equity securities would have an anti-dilutive effect on earnings per common unit as a result of the net loss incurred for the period.

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Weighted Average KKR Holdings Units Outstanding	365,717,358	383,937,941	370,306,583	391,269,962

For the three and nine months ended September 30, 2015 and 2014, KKR Holdings units have been excluded from the calculation of diluted Net Income (Loss) attributable to KKR & Co. L.P. per common unit since the exchange of these units would not dilute KKR's respective ownership interests in the KKR Group Partnerships.

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

Other Assets consist of the following:

	September 30, 2015	December 31, 2014
Foreign Exchange Contracts and Options (a)	\$579,647	\$517,088
Due from Broker (b)	431,744	561,554
Interest, Dividend and Notes Receivable (c)	427,282	594,288
Oil & Gas Assets, net (d)	389,627	460,658
Deferred Tax Assets, net	304,494	237,982
Unsettled Investment Sales (e)	185,278	176,622
Intangible Assets, net (f)	184,882	209,202
Receivables	110,637	55,876
Goodwill (f)	89,000	89,000
Deferred Financing Costs	75,834	46,058
Fixed Assets, net (g)	71,010	76,247
Deferred Transaction Related Expenses	21,741	14,981
Prepaid Taxes	13,232	31,267
Prepaid Expenses	12,757	8,812
Derivative Assets	4,094	11,897
Other	23,430	72,685
Total	\$2,924,689	\$3,164,217

Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign denominated investments. Such instruments are measured at fair value with changes in fair value recorded in Net (a) Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 “Net Gains (Losses) from Investment Activities” for the net changes in fair value associated with these instruments.

(b) Represents amounts held at clearing brokers resulting from securities transactions.

(c) Represents interest and dividend receivables and promissory notes due from third parties. The promissory notes bear interest at rates ranging from 2.0% -3.0% per annum and mature between 2016 and 2018.

(d) Includes proved and unproved oil and natural gas properties under the successful efforts method of accounting, which is net of impairment write-downs, accumulated depreciation, depletion and amortization. Whenever events or changes in circumstances indicate that the carrying amounts of such oil and natural gas properties may not be recoverable, KKR evaluates its proved and unproved oil and natural gas properties and related equipment and facilities for impairment on a field-by-field basis. For the three and nine months ended September 30, 2015, KKR recorded impairment charges totaling \$30.3 million to write down certain of its oil and natural gas properties. The impairment charge is recorded in General, Administrative and Other in the condensed consolidated statements of operations.

(e) Represents amounts due from third parties for investments sold for which cash settlement has not occurred.

(f) See Note 15 “Goodwill and Intangible Assets.”

Net of accumulated depreciation and amortization of \$132,553 and \$122,908 as of September 30, 2015 and December 31, 2014, respectively. Depreciation and amortization expense of \$3,777 and \$3,852 for the three (g) months ended September 30, 2015 and 2014, respectively, and \$11,642 and \$12,054 for the nine months ended September 30, 2015 and 2014, respectively, is included in General, Administrative and Other in the accompanying condensed consolidated statements of operations.

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

	September 30, 2015	December 31, 2014
Amounts Payable to Carry Pool (a)	\$1,117,225	\$1,100,943
Unsettled Investment Purchases (b)	736,276	891,649
Securities Sold Short (c)	316,125	633,132
Accrued Compensation and Benefits	152,425	17,799
Accounts Payable and Accrued Expenses	106,849	130,023
Foreign Exchange Contracts and Options (d)	102,048	71,956
Interest Payable	79,971	61,643
Derivative Liabilities	64,855	75,150
Contingent Consideration Obligation (e)	46,600	40,600
Deferred Rent and Income	23,201	26,894
Taxes Payable	14,629	6,362
Due to Broker (f)	6,282	72,509
Other Liabilities	40,222	70,692
Total	\$2,806,708	\$3,199,352

(a) Represents the amount of carried interest payable to principals, professionals and other individuals with respect to KKR's active funds and co-investment vehicles that provide for carried interest.

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

Represents the obligations of KKR to deliver a specified security at a future point in time. Such securities are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments. The cost bases for these instruments at September 30, 2015 and December 31, 2014 were \$329,671 and \$628,071, respectively.

Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign denominated investments. Such instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations.

See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments.

(e) Represents the fair value of the contingent consideration related to the acquisition of Prisma.

(f) Represents amounts owed for securities transactions initiated at clearing brokers.

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8. VARIABLE INTEREST ENTITIES

Consolidated VIEs

KKR consolidates certain VIEs in which it is determined that KKR is the primary beneficiary, which predominately are CFEs. In developing its conclusion that it is the primary beneficiary of these CFEs, KKR determined that it has more than an insignificant variable interest in these CFEs by virtue of its residual interest in these CFEs and, in certain cases, the presence of an incentive fee. These two variable interests were determined to expose KKR to a more than insignificant amount of these CFEs' variability relative to its anticipated economic performance. In addition, KKR has the power to direct the activities that most significantly impact the economic performance of the entities. In each case, KKR's variable interests represent an obligation to absorb losses of or a right to receive benefits from the entity that could potentially be significant to the entity. In consideration of these factors, KKR concluded that it was the primary beneficiary of these CFEs for consolidation accounting purposes. The primary purpose of these CFEs is to provide investment opportunities with the objective of generating current income for these CFE investors. The investment strategies of these CFEs are similar and the fundamental risks of these CFEs have similar characteristics, which include loss of invested capital and loss of management fees and/or incentive based fees in certain cases. KKR does not provide performance guarantees and has no other financial obligation to provide funding to these consolidated CFEs.

Unconsolidated VIEs

KKR holds variable interests in certain VIEs which are not consolidated as it is determined that KKR is not the primary beneficiary. VIEs that are not consolidated include (i) certain investment funds sponsored by KKR where the equity at risk to KKR is not considered substantive and (ii) certain CLO vehicles where KKR does not hold a variable interest that exposes KKR to a more than insignificant amount of the CLO vehicle's variability.

Investments in Unconsolidated Investment Funds

KKR's investment strategies differ by investment fund; however, the fundamental risks have similar characteristics, including loss of invested capital and loss of management fees and carried interests. KKR's maximum exposure to loss as a result of its investments in the unconsolidated investment funds is the carrying value of such investments, which was \$346.2 million at September 30, 2015. Accordingly disaggregation of KKR's involvement by type of unconsolidated investment fund would not provide more useful information. For these unconsolidated investment funds in which KKR is the sponsor, KKR may have an obligation as general partner to provide commitments to such investment funds. As of September 30, 2015, KKR's commitments to these unconsolidated investment funds was \$10.9 million. KKR has not provided any financial support other than its obligated amount as of September 30, 2015.

Investments in Unconsolidated CLO Vehicles

KKR provides collateral management services for, and has made nominal investments in, certain CLO vehicles that it does not consolidate. KKR's investments in the unconsolidated CLO vehicles, if any, are carried at fair value in the condensed consolidated statements of financial condition. KKR earns management fees, including subordinated collateral management fees, for managing the collateral of the CLO vehicles. At September 30, 2015, combined assets under management in the pools of unconsolidated CLO vehicles were \$1.6 billion. KKR's maximum exposure to loss as a result of its investments in the residual interests of unconsolidated CLO vehicles is the carrying value of such investments, which was \$2.1 million at September 30, 2015. CLO investors in the CLO vehicles may only use the assets of the CLO to settle the debt of the related CLO, and otherwise have no recourse against KKR for any losses sustained in the CLO structures.

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As of September 30, 2015 and December 31, 2014, the maximum exposure to loss, before allocations to the carry pool, if any, for those VIEs in which KKR is determined not to be the primary beneficiary but in which it has a variable interest is as follows:

	September 30, 2015	December 31, 2014
Investments	\$348,339	\$375,061
Due from Affiliates, net	9,811	3,478
Maximum Exposure to Loss	\$358,150	\$378,539

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9. DEBT OBLIGATIONS

KKR borrows and enters into credit agreements and issues debt for its general operating and investment purposes and certain of its investment funds borrow to meet financing needs of their operating and investing activities. In connection with the acquisition of KFN on April 30, 2014, KKR consolidates and reports KFN's debt obligations which are non-recourse to KKR beyond the assets of KFN.

Fund financing facilities have been established for the benefit of certain KKR investment funds. When a KKR investment fund borrows from the facility in which it participates, the proceeds from the borrowings are strictly limited for their intended use by the borrowing investment fund. KKR's obligations with respect to these financing arrangements are generally limited to KKR's pro-rata equity interest in such funds.

In addition, consolidated CFE vehicles issue debt securities to third party investors which are collateralized by assets held by the CFE vehicle. KKR bears no obligation with respect to financing arrangements at KKR's consolidated CFEs. Debt securities issued by CFEs are supported solely by the assets held at the CFEs and are not collateralized by assets of any other KKR entity.

KKR's borrowings consisted of the following:

	September 30, 2015				December 31, 2014		
	Financing Available	Borrowing Outstanding	Fair Value		Financing Available	Borrowing Outstanding	Fair Value
Revolving Credit Facilities:							
Corporate Credit Agreement	\$1,000,000	\$—	\$—		\$1,000,000	\$—	\$—
KCM Credit Agreement	500,000	—	—		473,000	27,000	27,000 (j)
Notes Issued:							
KKR Issued 6.375% Notes Due 2020 (a)	—	498,960	586,500	(k)	—	498,804	583,692 (k)
KKR Issued 5.500% Notes Due 2043 (b)	—	494,788	521,950	(k)	—	494,644	566,250 (k)
KKR Issued 5.125% Notes Due 2044 (c)	—	998,576	975,100	(k)	—	493,214	539,797 (k)
KFN Issued 8.375% Notes Due 2041 (d)	—	289,968	277,587	(l)	—	290,861	287,359 (l)
KFN Issued 7.500% Notes Due 2042 (e)	—	123,426	122,449	(l)	—	123,663	125,856 (l)
KFN Issued Junior Subordinated Notes (f)	—	248,160	214,190		—	246,907	228,087
Other Consolidated Debt Obligations:							
Fund Financing Facilities (g)	2,899,144	2,875,347	2,875,347	(m)	2,150,819	1,047,351	1,047,351 (m)
CLO Debt Obligations (h)	—	7,526,675	7,526,675		—	7,615,340	7,615,340
CMBS Debt Obligations (i)	—	3,531,743	3,531,743		—	—	—
	\$4,399,144	\$16,587,643	\$16,631,541		\$3,623,819	\$10,837,784	\$11,020,732

- (a) \$500 million aggregate principal amount of 6.375% senior notes of KKR due 2020.
- (b) \$500 million aggregate principal amount of 5.500% senior notes of KKR due 2043.
- (c) \$1.0 billion aggregate principal amount of 5.125% senior notes of KKR due 2044.
- (d) KKR consolidates KFN and thus reports KFN's outstanding \$259 million aggregate principal amount of 8.375% senior notes due 2041.
- (e) KKR consolidates KFN and thus reports KFN's outstanding \$115 million aggregate principal amount of 7.500% senior notes due 2042.
KKR consolidates KFN and thus reports KFN's outstanding \$284 million aggregate principal amount of junior subordinated notes. The weighted average interest rate is 5.4% and the weighted average years to maturity is 21.0 years as of September 30, 2015. These debt obligations are classified as Level III within the fair value hierarchy and valued using the same valuation methodologies as KKR's Level III credit investments.
- (f) Certain of KKR's investment funds have entered into financing arrangements with major financial institutions, generally to enable such investment funds to make investments prior to or without receiving capital from fund limited partners. The weighted average interest rate is 2.8% and 2.9% as of September 30, 2015 and December 31, 2014, respectively. In addition, the weighted average years to maturity is 2.6 years and 2.9 years as of September 30, 2015 and December 31, 2014, respectively.
- (g) CLO debt obligations are carried at fair value and are classified as Level II within the fair value hierarchy. See Note 5 "Fair Value Measurements."
- (h) CMBS debt obligations are carried at fair value and are classified as Level II within the fair value hierarchy. See Note 5 "Fair Value Measurements."
- (i) Carrying value approximates fair value given the credit facility's interest rate is variable.
- (j)

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- (k) The notes are classified as Level II within the fair value hierarchy and fair value is determined by third party broker quotes.
- (l) The notes are classified as Level I within the fair value hierarchy and fair value is determined by quoted prices in active markets since the debt is publicly listed.
- (m) Carrying value approximates fair value given the fund financing facilities' interest rates are variable.

2044 Senior Notes

On March 18, 2015, KKR Group Finance Co. III LLC, a subsidiary of KKR Management Holdings Corp., issued an additional \$500 million aggregate principal amount of its 5.125% Senior Notes due 2044 (the "Notes"), under the indenture dated as of May 29, 2014, which were priced at 101.062%. The Notes are unsecured and unsubordinated obligations of the issuer and will mature on June 1, 2044, unless earlier redeemed or repurchased. The Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors. The Notes constitute an additional issuance of the issuer's 5.125% Senior Notes due 2044, \$500 million aggregate principal amount of which were previously issued and are outstanding (the "Existing Notes" and together with the Notes are referred to hereafter as the "2044 Senior Notes"). The Notes form a single series with the Existing Notes. The terms of the Notes are identical to the terms of the Existing Notes, except for the issue date, issue price, the first payment date, June 1, 2015, and the date from which interest begins to accrue.

Debt Obligations of Consolidated CFEs

As of September 30, 2015, debt obligations of consolidated CFEs consisted of the following:

	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes of Consolidated CLOs	\$7,224,249	2.1	% 9.5
Debt Obligations of Consolidated CMBS Vehicles	3,531,743	3.5	% 33.2
Subordinated Notes of Consolidated CLOs	302,426	(a)	8.8
	\$11,058,418		

(a) The subordinated notes do not have contractual interest rates but instead receive a pro rata amount of the net distributions from the excess cash flows of the respective CLO vehicle. Accordingly, weighted average borrowing rates for the subordinated notes are based on cash distributions during the period, if any.

Debt obligations of consolidated CFEs are collateralized by assets held by each respective CFE vehicle and assets of one CFE vehicle may not be used to satisfy the liabilities of another. As of September 30, 2015, the fair value of the consolidated CFE assets was \$12.7 billion. This collateral consisted of Cash and Cash Equivalents Held at Consolidated Entities, Investments, and Other Assets.

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10. INCOME TAXES

The consolidated entities of KKR are generally treated as partnerships or disregarded entities for U.S. and non-U.S. tax purposes. The taxes payable on the income generated by partnerships and disregarded entities are generally paid by the fund investors, unitholders, principals and other third parties who beneficially own such partnerships and disregarded entities and are generally not payable by KKR. However, certain consolidated entities are treated as corporations for U.S. and non-U.S tax purposes and are therefore subject to U.S. federal, state and/or local income taxes and/or non-U.S. taxes at the entity-level. In addition, certain consolidated entities which are treated as partnerships for U.S. tax purposes are subject to the New York City Unincorporated Business Tax or other local taxes.

The effective tax rates were 0.60% and 3.25% for the three months ended September 30, 2015 and 2014, respectively, and 0.97% and 1.15% for the nine months ended September 30, 2015 and 2014, respectively. The effective tax rate differs from the statutory rate primarily due to the following: (i) a substantial portion of the reported net income (loss) before taxes is not attributable to KKR but rather is attributable to noncontrolling interests held in KKR's consolidated entities by third parties or by KKR Holdings, (ii) a significant portion of the amount of the reported net income (loss) before taxes attributable to KKR is from certain entities that are not subject to U.S. federal, state or local income taxes and/or non-U.S. taxes, and (iii) certain compensation charges attributable to KKR are not deductible for tax purposes.

During the three and nine month period ended September 30, 2015, there were no material changes to KKR's uncertain tax positions and KKR believes there will be no significant increase or decrease to the uncertain tax positions within 12 months of the reporting date.

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11. EQUITY BASED COMPENSATION

The following table summarizes the expense associated with equity based compensation for the three and nine months ended September 30, 2015 and 2014, respectively.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Equity Incentive Plan Units	\$48,252	\$42,090	\$148,970	\$122,320
KKR Holdings Principal Awards	2,045	9,981	6,238	27,770
Other Exchangeable Securities	4,054	7,249	11,730	17,192
KKR Holdings Restricted Equity Units	(18	) 243	131	749
Discretionary Compensation	13,488	24,387	46,780	86,404
Total	\$67,821	\$83,950	\$213,849	\$254,435

Equity Incentive Plan

Under the Equity Incentive Plan, KKR is permitted to grant equity awards representing ownership interests in KKR & Co. L.P. common units. Vested awards under the Equity Incentive Plan dilute KKR & Co. L.P. common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR Group Partnerships.

The total number of common units that may be issued under the Equity Incentive Plan is equivalent to 15% of the number of fully diluted common units outstanding, subject to annual adjustment. Equity awards have been granted under the Equity Incentive Plan and are generally subject to service based vesting, typically over a three to five year period from the date of grant. In certain cases, these awards are subject to transfer restrictions and/or minimum retained ownership requirements. The transfer restriction period, if applicable, lasts for (i) one year with respect to one-half of the interests vesting on any vesting date and (ii) two years with respect to the other one-half of the interests vesting on such vesting date. While providing services to KKR, if applicable, certain of these recipients are also subject to minimum retained ownership rules requiring them to continuously hold common unit equivalents equal to at least 15% of their cumulatively vested interests.

Expense associated with the vesting of these awards is based on the closing price of the KKR & Co. L.P. common units on the date of grant, discounted for the lack of participation rights in the expected distributions on unvested units, which currently ranges from 8% to 56% multiplied by the number of unvested units on the grant date. The grant date fair value of a KKR & Co. L.P. common unit reflects a discount for lack of distribution participation rights, because equity awards are not entitled to receive distributions while unvested. The discount range was based on management's estimates of future distributions that unvested equity awards will not be entitled to receive between the grant date and the vesting date. Therefore, units that vest in earlier periods have a lower discount as compared to units that vest in later periods, which have a higher discount. The discount range will generally increase when the level of expected annual distributions increases relative to the grant date fair value of a KKR & Co. L.P. common unit. A decrease in expected annual distributions relative to the grant date fair value of a KKR & Co. L.P. common unit would generally have the opposite effect. Expense is recognized on a straight line basis over the life of the award and assumes a forfeiture rate of up to 8% annually based upon expected turnover by class of recipient.

As of September 30, 2015, there was approximately \$259.7 million of estimated unrecognized expense related to unvested awards. That cost is expected to be recognized as follows:

Year

	Unrecognized Expense (in millions)
Remainder of 2015	\$37.3
2016	128.7
2017	74.7
2018	18.4
2019	0.6
Total	\$259.7

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A summary of the status of unvested awards granted under the Equity Incentive Plan from January 1, 2015 through September 30, 2015 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2015	20,488,737	\$12.33
Granted	15,725,422	17.03
Vested	(5,243,645	) 12.97
Forfeited	(2,066,142	) 14.55
Balance, September 30, 2015	28,904,372	\$14.61

The weighted average remaining vesting period over which unvested awards are expected to vest is 1.1 years.

A summary of the remaining vesting tranches of awards granted under the Equity Incentive Plan is presented below:

Vesting Date	Units
October 1, 2015	5,435,876
April 1, 2016	7,233,909
October 1, 2016	4,344,292
April 1, 2017	5,345,217
October 1, 2017	1,411,422
April 1, 2018	4,032,068
October 1, 2018	1,010,991
April 1, 2019	6,947
October 1, 2019	83,650
	28,904,372

KKR Holdings—Principal Awards

Certain KKR employees and non-employee operating consultants and other service providers received grants of KKR Holdings units (“Principal Awards”) which are exchangeable for KKR Group Partnership Units. These units are generally subject to minimum retained ownership requirements and in certain cases, transfer restrictions, and allow for their exchange into common units of KKR & Co. L.P. on a one-for-one basis. As of September 30, 2015, KKR Holdings owned approximately 45%, or 364,630,841 of the outstanding KKR Group Partnership Units.

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

Because KKR Holdings is a partnership, all of the 364,630,841 KKR Holdings units have been legally allocated, but the allocation of 35,010,672 of these units has not been communicated to each respective principal. The units that have not been communicated are subject to performance based vesting conditions, which include profitability and other similar criteria. These criteria are not sufficiently specific to constitute performance conditions for accounting

purposes, and the achievement, or lack thereof, will be determined based upon the exercise of judgment by the general partner of KKR Holdings. Each principal will ultimately receive between zero and 100% of the units initially allocated. The allocation of these units has not yet been communicated to the award recipients as this was management's decision on how to best incentivize its principals. It is anticipated that additional service-based vesting conditions will be imposed at the time the allocation is initially communicated to the respective principals. KKR applied the guidance of Accounting Standards Code ("ASC") 718 and concluded that these KKR Holdings units do not yet meet the criteria for recognition of compensation cost because neither the grant date nor the

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service inception date has occurred. In reaching a conclusion that the service inception date has not occurred, KKR considered (a) the fact that the vesting conditions are not sufficiently specific to constitute performance conditions for accounting purposes, (b) the significant judgment that can be exercised by the general partner of KKR Holdings in determining whether the vesting conditions are ultimately achieved, and (c) the absence of communication to the principals of any information related to the number of units they were initially allocated. The allocation of these units will be communicated to the award recipients when the performance-based vesting conditions have been met, and currently there is no plan as to when the communication will occur. The determination as to whether the award recipients have satisfied the performance-based vesting conditions is made by the general partner of KKR Holdings, and is based on multiple factors primarily related to the award recipients' individual performance.

The fair value of Principal Awards is based on the closing price of KKR & Co. L.P. common units on the date of grant. KKR determined this to be the best evidence of fair value as a KKR & Co. L.P. common unit is traded in an active market and has an observable market price. Additionally, a KKR Holdings unit is an instrument with terms and conditions similar to those of a KKR & Co. L.P. common unit. Specifically, units in both KKR Holdings and KKR & Co. L.P. represent ownership interests in KKR Group Partnership Units and, subject to any vesting, minimum retained ownership requirements and transfer restrictions referenced above, each KKR Holdings unit is exchangeable into a KKR Group Partnership Unit and then into a KKR & Co. L.P. common unit on a one-for-one basis.

Principal Awards give rise to equity-based payment charges in the condensed consolidated statements of operations based on the grant-date fair value of the award. For units vesting on the grant date, expense is recognized on the date of grant based on the fair value of a KKR & Co. L.P. common unit on the grant date multiplied by the number of vested units. Equity-based payment expense on unvested units is calculated based on the fair value of a KKR & Co. L.P. common unit at the time of grant, discounted for the lack of participation rights in the expected distributions on unvested units which currently ranges from 8% to 56%, multiplied by the number of unvested units on the grant date. Expense is recognized using the graded-attribution method, which treats each vesting tranche as a separate award. The grant date fair value of a KKR & Co. L.P. common unit reflects a discount for lack of distribution participation rights because equity awards are not entitled to receive distributions while unvested. The discount range was based on management's estimates of future distributions that unvested equity awards will not be entitled to receive between the grant date and the vesting date. Therefore, units that vest in the earlier periods have a lower discount as compared to units that vest in later periods, which have a higher discount. The discount range will generally increase when the level of expected annual distributions increases relative to the grant date fair value of a KKR & Co. L.P. common unit. A decrease in expected annual distributions relative to the grant date fair value of a KKR & Co. L.P. common unit would generally have the opposite effect.

Principal Awards granted to certain non-employee consultants and service providers give rise to general, administrative and other charges in the condensed consolidated statements of operations. For units vesting on the grant date, expense is recognized on the date of grant based on the fair value of a KKR & Co. L.P. common unit on the grant date multiplied by the number of vested units. General, administrative and other expense recognized on unvested units is calculated based on the fair value of a KKR & Co. L.P. common unit on each reporting date and subsequently adjusted for the actual fair value of the award at each vesting date. Accordingly, the measured value of these units will not be finalized until each vesting date.

The calculation of equity-based payment expense and general administrative and other expense on unvested Principal Awards assumes forfeiture rates of up to 8% annually based upon expected turnover by class of employee, consultant, or service provider.

As of September 30, 2015, there was approximately \$3.2 million of estimated unrecognized equity-based payment and general administrative and other expense related to unvested Principal Awards. That cost is expected to be recognized as follows:

Year	Unrecognized Expense (in millions)
Remainder of 2015	\$0.7
2016	2.1
2017	0.4
Total	\$3.2

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A summary of the status of unvested Principal Awards from January 1, 2015 through September 30, 2015 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2015	4,708,434	\$8.44
Granted	74,247	16.64
Vested	(1,090,262	) 9.50
Forfeited	(195,637	) 8.82
Balance, September 30, 2015	3,496,782	\$8.26

The weighted average remaining vesting period over which unvested units are expected to vest in less than one year.

The following table summarizes the remaining vesting tranches of Principal Awards:

Vesting Date	Units
October 1, 2015	2,025,357
April 1, 2016	122,697
October 1, 2016	1,127,413
April 1, 2017	70,271
October 1, 2017	111,293
April 1, 2018	39,751
	3,496,782

Other Exchangeable Securities

In connection with the acquisition of Avoca, KKR issued 2,545,602 equity securities of a subsidiary of a KKR Group Partnership and of KKR & Co. L.P. both of which are exchangeable into common units of KKR & Co. L.P. on a one-for-one basis ("Other Exchangeable Securities"). Certain Other Exchangeable Securities are subject to time based vesting (generally over a three-year period from February 19, 2014) and are not exchangeable into common units until vested, and in certain cases are subject to minimum retained ownership requirements and transfer restrictions. Consistent with grants of KKR Holdings awards and grants made under the KKR Equity Incentive Plan, holders of Other Exchangeable Securities are not entitled to receive distributions while unvested.

The fair value of Other Exchangeable Securities is based on the closing price of KKR & Co. L.P. common units on the date of grant. KKR determined this to be the best evidence of fair value as a KKR & Co. L.P. common unit is traded in an active market and has an observable market price. Additionally, Other Exchangeable Securities are instruments with terms and conditions similar to those of a KKR & Co. L.P. common unit. Specifically, these Other Exchangeable Securities are exchangeable into KKR & Co. L.P. common units on a one-for-one basis upon vesting.

Expense associated with the vesting of these Other Exchangeable Securities is based on the closing price of a KKR & Co. L.P. common unit on the date of grant, discounted for the lack of participation rights in the expected distributions on unvested Other Exchangeable Securities, which currently ranges from 8% to 56% multiplied by the number of unvested Other Exchangeable Securities on the issuance date. The discount range was based on management's estimates of future distributions that unvested Other Exchangeable Securities will not be entitled to receive between the issuance date and the vesting date. Therefore, Other Exchangeable Securities that vest in earlier periods have a lower discount as compared to Other Exchangeable Securities that vest in later periods, which have a higher discount. The discount range will generally increase when the level of expected annual distributions increases relative to the issuance date fair value of a KKR & Co. L.P. common unit. A decrease in expected annual distributions relative to the grant date fair value of a KKR & Co. L.P. common unit would generally have the opposite effect. Expense is

recognized on a straight line basis over the life of the security and assumes a forfeiture rate of up to 8% annually based upon expected turnover by class of recipient.

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As of September 30, 2015, there was approximately \$12.6 million of estimated unrecognized expense related to unvested Other Exchangeable Securities. That cost is expected to be recognized as follows:

Year	Unrecognized Expense (in millions)
Remainder of 2015	\$3.1
2016	9.5
Total	\$12.6

A summary of the status of unvested Other Exchangeable Securities from January 1, 2015 through September 30, 2015 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2015	1,695,972	\$18.45
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance, September 30, 2015	1,695,972	\$18.45

The weighted average remaining vesting period over which unvested Other Exchangeable Securities are expected to vest in less than one year.

The following table summarizes the remaining vesting tranches of Other Exchangeable Securities:

Vesting Date	Units
October 1, 2015	847,983
October 1, 2016	847,989
	1,695,972

KKR Holdings—Restricted Equity Units

Grants of restricted equity units based on KKR Group Partnership Units held by KKR Holdings were made to professionals, support staff, and other personnel (“Holdings REU Awards”). These grants are funded by KKR Holdings and do not dilute KKR’s interests in the KKR Group Partnerships. Substantially all Holdings REU Awards are fully vested as of April 1, 2015 and there is no material unrecognized expense.

Discretionary Compensation

All KKR employees and certain employees of certain consolidated entities are eligible to receive discretionary cash bonuses. 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 principals are currently borne by KKR Holdings. These bonuses are 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 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.

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12. RELATED PARTY TRANSACTIONS

Due from Affiliates consists of:

	September 30, 2015	December 31, 2014
Amounts due from portfolio companies	\$39,949	\$64,989
Amounts due from unconsolidated investment funds	62,556	47,229
Amounts due from related entities	13,598	34,838
Due from Affiliates	\$116,103	\$147,056

Due to Affiliates consists of:

	September 30, 2015	December 31, 2014
Amounts due to KKR Holdings in connection with the tax receivable agreement	\$154,393	\$121,803
Amounts due to related entities	7,442	9,745
Due to Affiliates	\$161,835	\$131,548

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13. SEGMENT REPORTING

KKR operates through three reportable business segments. These segments, which are differentiated primarily by their business objectives and investment strategies are presented below. These financial results represent the combined financial results of the KKR Group Partnerships on a segment basis.

Private Markets

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

Public Markets

KKR operates and reports its combined credit and hedge funds businesses through the Public Markets segment. KKR's credit business advises funds, CLOs, separately managed accounts, and investment companies registered under the Investment Company Act, including a business development company or BDC, undertakings for collective investment in transferable securities or UCITS, and alternative investment funds or AIFs, which invest capital in (i) leveraged credit strategies, such as leveraged loans, high yield bonds and opportunistic credit, and (ii) alternative credit strategies such as mezzanine investments, direct lending investments, special situations investments, and long/short credit investment strategies. The funds, accounts, registered investment companies and CLOs in KKR's leveraged credit and alternative credit strategies are managed by KKR Credit Advisors (US) LLC, which is an SEC-registered investment adviser, KKR Credit Advisors (Ireland), regulated by the Central Bank of Ireland, and KKR Credit Advisors (UK) LLP, regulated by the United Kingdom Financial Conduct Authority or FCA. KKR's Public Markets segment also includes its hedge funds business that offers a variety of investment strategies, including customized hedge fund portfolios and hedge fund-of-fund solutions, and our strategic partnerships with hedge fund managers, in which we acquired stakes or have seeded. The funds and accounts in KKR's hedge fund business is managed by Prisma Capital Partners LP (KKR Prisma or Prisma), an SEC-registered investment adviser.

Capital Markets

The Capital Markets segment is comprised primarily of KKR's global capital markets business. KKR's capital markets business supports the firm, 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 KKR underwrites an offering of securities or a loan on a firm commitment basis, KKR commits 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 KKR acts in an agency capacity, KKR generates revenue for arranging financing or placing securities or debt with capital markets investors. KKR Capital Markets LLC is an SEC-registered broker-dealer and a FINRA member, and KKR is also registered or authorized to carry out certain broker-dealer activities in various countries in North America, Europe, Asia-Pacific and the Middle East. KKR's third party capital markets activities are generally carried out through Merchant Capital Solutions LLC, a joint venture with one other unaffiliated partner, and non-bank financial companies, or NBFs, in India.

KKR earns the majority of its fees from subsidiaries located in the United States.

Key Performance Measure - Economic Net Income ("ENI")

ENI is 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 and as such represents the business in total. In addition, KKR's reportable segments are presented without giving effect to the consolidation of the funds that KKR manages.

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. ENI is comprised of total segment revenues; less total segment expenses and 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 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

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the amortization of intangible assets; (iv) the exclusion of non-cash equity-based charges and other non-cash compensation charges borne by KKR Holdings or incurred under the Equity Incentive Plan and other securities that are exchangeable for common units of KKR & Co. L.P.; (v) the exclusion of certain non-recurring items; (vi) the exclusion of investment income (loss) relating to noncontrolling interests; and (vii) the exclusion of income taxes.

The following tables present the financial data for KKR's reportable segments:

	As of and for the Three Months Ended September 30, 2015			
	Private Markets	Public Markets	Capital Markets	Total Reportable Segments
Segment Revenues				
Management, Monitoring and Transaction Fees, Net				
Management Fees	\$ 118,250	\$ 63,530	\$—	\$ 181,780
Monitoring Fees	24,964	—	—	24,964
Transaction Fees	17,732	3,386	40,319	61,437
Fee Credits (1)	(20,266)	) (3,027)	) —	(23,293)
Total Management, Monitoring and Transaction Fees, Net	140,680	63,889	40,319	244,888
Performance Income				
Realized Carried Interest	265,291	—	—	265,291
Incentive Fees	—	880	—	880
Unrealized Carried Interest	(394,126)	) (34,367)	) —	(428,493)
Total Performance Income	(128,835)	) (33,487)	) —	(162,322)
Investment Income (Loss)				
Net Realized Gains (Losses)	59,880	1,538	21	61,439
Net Unrealized Gains (Losses)	(149,865)	) (230,569)	) (4,026)	(384,460)
Total Realized and Unrealized	(89,985)	) (229,031)	) (4,005)	(323,021)
Net Interest and Dividends	3,538	34,995	10,104	48,637
Total Investment Income (Loss)	(86,447)	) (194,036)	) 6,099	(274,384)
Total Segment Revenues	(74,602)	) (163,634)	) 46,418	(191,818)
Segment Expenses				
Compensation and Benefits				
Cash Compensation and Benefits	57,991	21,002	9,040	88,033
Realized Allocation to Carry Pool (2)	106,116	—	—	106,116
Unrealized Allocation to Carry Pool (2)	(156,874)	) (13,747)	) —	(170,621)
Total Compensation and Benefits	7,233	7,255	9,040	23,528
Occupancy and Related Charges	11,937	3,096	687	15,720
Other Operating Expenses	39,674	9,004	3,403	52,081
Total Segment Expenses	58,844	19,355	13,130	91,329
Income (Loss) attributable to noncontrolling interests (3)	250	305	2,347	2,902
Economic Net Income (Loss)	\$(133,696)) \$(183,294)) \$30,941	\$(286,049)

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Total Assets	\$8,002,947	\$4,017,863	\$1,727,989	\$13,748,799
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(1) KKR's agreements with the fund investors of certain of its investment funds require KKR to share with these fund investors an agreed upon percentage of certain fees, including monitoring and transaction fees received from portfolio companies ("Fee Credits"). Fund investors receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the portfolio company and not, for example, any fees

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allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% or 100% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund as well as among different classes of investors within a fund.

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

Represents economic interests that (i) allocate to third parties an aggregate of 1% of profits and losses of KKR's (3) management companies until a future date and (ii) allocate to third party investors certain profits and losses in KKR's Capital Markets segment.

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	As of and for the Three Months Ended September 30, 2014			
	Private Markets	Public Markets	Capital Markets	Total Reportable Segments
Segment Revenues				
Management, Monitoring and Transaction Fees, Net				
Management Fees	\$ 107,443	\$ 66,469	\$—	\$ 173,912
Monitoring Fees	30,449	—	—	30,449
Transaction Fees	67,772	3,262	87,530	158,564
Fee Credits (1)	(58,810	) (3,001	) —	(61,811
Total Management, Monitoring and Transaction Fees, Net	146,854	66,730	87,530	301,114
Performance Income				
Realized Carried Interest	236,126	9,900	—	246,026
Incentive Fees	—	8,009	—	8,009
Unrealized Carried Interest	53,776	2,416	—	56,192
Total Performance Income	289,902	20,325	—	310,227
Investment Income (Loss)				
Net Realized Gains (Losses)	165,047	(630	) (1,622	) 162,795
Net Unrealized Gains (Losses)	8,293	(46,118	) (8	) (37,833
Total Realized and Unrealized	173,340	(46,748	) (1,630	) 124,962
Net Interest and Dividends	21,463	53,335	7,456	82,254
Total Investment Income (Loss)	194,803	6,587	5,826	207,216
Total Segment Revenues	631,559	93,642	93,356	818,557
Segment Expenses				
Compensation and Benefits				
Cash Compensation and Benefits	59,991	26,787	22,012	108,790
Realized Allocation to Carry Pool (2)	94,451	3,960	—	98,411
Unrealized Allocation to Carry Pool (2)	21,729	967	—	22,696
Total Compensation and Benefits	176,171	31,714	22,012	229,897
Occupancy and Related Charges	11,460	2,518	480	14,458
Other Operating Expenses	44,619	10,929	4,724	60,272
Total Segment Expenses	232,250	45,161	27,216	304,627
Income (Loss) attributable to noncontrolling interests (3)	342	335	4,512	5,189
Economic Net Income (Loss)	\$ 398,967	\$ 48,146	\$ 61,628	\$ 508,741
Total Assets	\$ 7,419,105	\$ 4,333,710	\$ 1,763,040	\$ 13,515,855

(1) KKR's agreements with the fund investors of certain of its investment funds require KKR to share with these fund investors an agreed upon percentage of certain fees, including monitoring and transaction fees received from portfolio companies ("Fee Credits"). Fund investors receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the portfolio company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain

fund-related expenses and generally amount to 80% or 100% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund as well as among different classes of investors within a fund.

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

Represents economic interests that (i) allocate to third parties an aggregate of 1% of profits and losses of KKR's (3) management companies until a future date and (ii) allocate to third party investors certain profits and losses in KKR's Capital Markets segment.

	As of and for the Nine Months Ended September 30, 2015			
	Private Markets	Public Markets	Capital Markets	Total Reportable Segments
Segment Revenues				
Management, Monitoring and Transaction Fees, Net				
Management Fees	\$342,872	\$194,089	\$—	\$536,961
Monitoring Fees	170,515	—	—	170,515
Transaction Fees	104,652	20,689	132,333	257,674
Fee Credits (1)	(143,458)	) (16,787)	) —	(160,245)
Total Management, Monitoring and Transaction Fees, Net	474,581	197,991	132,333	804,905
Performance Income				
Realized Carried Interest	810,990	8,953	—	819,943
Incentive Fees	—	12,438	—	12,438
Unrealized Carried Interest	45,190	5,967	—	51,157
Total Performance Income	856,180	27,358	—	883,538
Investment Income (Loss)				
Net Realized Gains (Losses)	388,961	33,414	(4,009)	) 418,366
Net Unrealized Gains (Losses)	74,592	(330,434)	) (7,355)	) (263,197)
Total Realized and Unrealized	463,553	(297,020)	(11,364)	) 155,169
Net Interest and Dividends	3,941	146,257	24,520	174,718
Total Investment Income (Loss)	467,494	(150,763)	) 13,156	329,887
Total Segment Revenues	1,798,255	74,586	145,489	2,018,330
Segment Expenses				
Compensation and Benefits				
Cash Compensation and Benefits	197,897	67,792	28,242	293,931
Realized Allocation to Carry Pool (2)	324,396	3,581	—	327,977
Unrealized Allocation to Carry Pool (2)	19,190	2,386	—	21,576
Total Compensation and Benefits	541,483	73,759	28,242	643,484
Occupancy and Related Charges	34,785	9,195	2,011	45,991
Other Operating Expenses	119,915	34,575	10,150	164,640
Total Segment Expenses	696,183	117,529	40,403	854,115
Income (Loss) attributable to noncontrolling interests (3)	1,112	958	8,837	10,907
Economic Net Income (Loss)	\$1,100,960	\$(43,901)) \$96,249	\$1,153,308

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Total Assets	\$8,002,947	\$4,017,863	\$1,727,989	\$13,748,799
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KKR's agreements with the fund investors of certain of its investment funds require KKR to share with these fund (1) investors an agreed upon percentage of certain fees, including monitoring and transaction fees received from portfolio companies ("Fee Credits"). Fund investors receive Fee Credits only with respect to monitoring and

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transaction fees that are allocable to the fund's investment in the portfolio company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% or 100% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund as well as among different classes of investors within a fund.

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Represents economic interests that (i) allocate to third parties an aggregate of 1% of profits and losses of KKR's (3) management companies until a future date and (ii) allocate to third party investors certain profits and losses in KKR's Capital Markets segment.

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	As of and for the Nine Months Ended September 30, 2014			
	Private Markets	Public Markets	Capital Markets	Total Reportable Segments
Segment Revenues				
Management, Monitoring and Transaction Fees, Net				
Management Fees	\$342,024	\$205,955	\$—	\$547,979
Monitoring Fees	96,422	—	—	96,422
Transaction Fees	206,132	16,634	183,619	406,385
Fee Credits (1)	(182,626	) (13,683	) —	(196,309
Total Management, Monitoring and Transaction Fees, Net	461,952	208,906	183,619	854,477
Performance Income				
Realized Carried Interest	960,414	34,650	—	995,064
Incentive Fees	—	36,506	—	36,506
Unrealized Carried Interest	35,988	28,025	—	64,013
Total Performance Income	996,402	99,181	—	1,095,583
Investment Income (Loss)				
Net Realized Gains (Losses)	549,137	19,133	(2,086	) 566,184
Net Unrealized Gains (Losses)	(43,763	) (27,553	) (693	) (72,009
Total Realized and Unrealized	505,374	(8,420	) (2,779	) 494,175
Net Interest and Dividends	41,415	96,734	15,701	153,850
Total Investment Income (Loss)	546,789	88,314	12,922	648,025
Total Segment Revenues	2,005,143	396,401	196,541	2,598,085
Segment Expenses				
Compensation and Benefits				
Cash Compensation and Benefits	183,411	80,436	45,302	309,149
Realized Allocation to Carry Pool (2)	384,166	13,860	—	398,026
Unrealized Allocation to Carry Pool (2)	16,742	11,209	—	27,951
Total Compensation and Benefits	584,319	105,505	45,302	735,126
Occupancy and Related Charges	34,784	7,234	1,386	43,404
Other Operating Expenses	124,267	30,910	12,207	167,384
Total Segment Expenses	743,370	143,649	58,895	945,914
Income (Loss) attributable to noncontrolling interests (3)	1,192	1,242	9,163	11,597
Economic Net Income (Loss)	\$1,260,581	\$251,510	\$128,483	\$1,640,574
Total Assets	\$7,419,105	\$4,333,710	\$1,763,040	\$13,515,855

(1) KKR's agreements with the fund investors of certain of its investment funds require KKR to share with these fund investors an agreed upon percentage of certain fees, including monitoring and transaction fees received from portfolio companies ("Fee Credits"). Fund investors receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the portfolio company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain

fund-related expenses and generally amount to 80% or 100% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund as well as among different classes of investors within a fund.

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

Represents economic interests that (i) allocate to third parties an aggregate of 1% of profits and losses of KKR's (3) management companies until a future date and (ii) allocate to third party investors certain profits and losses in KKR's Capital Markets segment.

The following tables reconcile KKR's total reportable segments to the most directly comparable financial measures calculated and presented in accordance with GAAP:

Fees	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Total Segment Revenues	\$(191,818	) \$818,557	\$2,018,330	\$2,598,085
Management fees relating to consolidated funds and other entities	(131,581	) (121,008	) (387,020	) (386,207
Fee credits relating to consolidated funds	21,212	58,580	147,899	184,039
Net realized and unrealized carried interest	163,202	(302,218	) (871,100	) (1,059,077
Total investment income (loss)	274,384	(207,216	) (329,887	) (648,025
Revenue earned by oil & gas producing entities	29,620	69,380	90,264	143,369
Reimbursable expenses	14,390	21,040	41,710	46,480
Other	9,217	7,653	25,649	18,400
Fees and Other	\$188,626	\$344,768	\$735,845	\$897,064

Expenses	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Total Segment Expenses	\$91,329	\$304,627	\$854,115	\$945,914
Equity based compensation	67,821	83,950	213,849	254,435
Reimbursable expenses	18,064	34,355	64,470	66,847
Operating expenses relating to consolidated funds and other entities	15,901	28,219	37,953	81,536
Expenses incurred by oil & gas producing entities	60,224	40,234	107,355	90,405
Intangible amortization, acquisition, litigation and certain non-recurring costs	12,726	2,396	34,248	87,893
Other	10,855	10,629	34,140	35,876
Total Expenses	\$276,920	\$504,410	\$1,346,130	\$1,562,906

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Income (Loss) Before Taxes

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Economic net income	\$(286,049)	\$508,741	\$1,153,308	\$1,640,574
Income tax (benefit)	7,390	(29,267)	(39,295)	(57,145)
Amortization of intangibles and other, net	(10,186)	(204,676)	(45,306)	(262,300)
Equity based compensation	(67,821)	(83,950)	(213,849)	(254,435)
Net income (loss) attributable to noncontrolling interests held by KKR Holdings	166,078	(100,910)	(398,633)	(588,500)
Net income (loss) attributable to KKR & Co. L.P.	\$(190,588)	\$89,938	\$456,225	\$478,194
Net income (loss) attributable to noncontrolling interests and appropriated capital	(1,014,382)	784,568	3,586,640	4,449,146
Net income (loss) attributable to redeemable noncontrolling interests	(12,925)	(2,462)	(11,883)	1,366
Income tax (benefit)	(7,390)	29,267	39,295	57,145
Income (loss) before taxes	\$(1,225,285)	\$901,311	\$4,070,277	\$4,985,851

The items that reconcile KKR's total reportable segments to the corresponding condensed consolidated amounts calculated and presented in accordance with GAAP for net income (loss) attributable to redeemable noncontrolling interests and income (loss) attributable to noncontrolling interests and appropriated capital are primarily attributable to the impact of the consolidation of KKR's funds and certain other entities.

Assets

	As of September 30, 2015	As of September 30, 2014
Total Segment Assets	\$13,748,799	\$13,515,855
Consolidation of KKR Funds, CFEs and other entities	55,260,265	52,805,789
Accounting basis difference for oil & natural gas properties	47,862	11,341
Total Assets	\$69,056,926	\$66,332,985

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14. ACQUISITIONS

Acquisition of KFN

On April 30, 2014, KKR completed its acquisition of KFN by merger (the “Merger”) contemplated by an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which KFN became a subsidiary of KKR. KFN is a specialty finance company with expertise in a range of asset classes in which it invests, consisting primarily of corporate loans, also known as leveraged loans, high yield debt securities, interests in joint ventures and partnerships, and interests in oil and gas properties. The addition of KFN provided KKR with over \$2 billion of permanent equity capital to support the continued growth of its business.

The total consideration paid was approximately \$2.4 billion consisting entirely of the issuance of 104.3 million KKR common units as follows (amounts in thousands except unit data):

Number of KKR common units issued	104,340,028
KKR common unit price on April 30, 2014	\$22.71
Estimated fair value of KKR common units issued	\$2,369,559

The following is a summary of the estimated fair values of the assets acquired and liabilities as of April 30, 2014, the date they were assumed (amounts in thousands):

Cash and cash equivalents	\$210,413
Cash and cash equivalents held at consolidated entities	614,929
Restricted cash and cash equivalents	35,038
Investments	1,235,813
Investments of consolidated CLOs	6,742,768
Other assets	642,721
Other assets of consolidated CLOs	133,036
Total assets	9,614,718
Debt obligations	724,509
Debt obligations of consolidated CLOs	5,663,666
Accounts payable, accrued expenses and other liabilities	118,427
Other liabilities of consolidated CLOs	344,660
Total liabilities	6,851,262
Noncontrolling interests	378,983
Fair value of Net Assets Acquired	2,384,473
Less: Fair value of consideration transferred	2,369,559
Gain on acquisition	\$14,914

As of April 30, 2014, the fair value of the net assets acquired exceeded the fair value of consideration transferred by approximately \$14.9 million and relates primarily to the difference between the fair value of the assets and liabilities of CLOs consolidated by KFN. This amount has been recorded in net gains (losses) from investment activities in the condensed consolidated statements of operations.

On a segment basis, the financial results of KFN are included within each of the Private Markets segment, Public Markets segment and Capital Markets segment, based on the character of each asset of KFN.

KKR incurred \$8.3 million of acquisition related costs through the date of closing, which were expensed as incurred and are reflected within General, Administrative and Other.

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Acquisition of Avoca Capital

On February 19, 2014, KKR closed its acquisition of 100% of the equity interests of Avoca Capital and its affiliates (“Avoca”). Avoca, now renamed KKR Credit Advisors (Ireland), was a European credit investment manager with approximately \$8.2 billion in assets under management at the time of acquisition. The addition of Avoca provided KKR with a greater presence in the European leveraged credit markets.

The total consideration included \$83.3 million in cash and \$56.5 million in securities of a subsidiary of a KKR Group Partnership and of KKR & Co. L.P. that are exchangeable into approximately 2.4 million KKR & Co. L.P. common units, at any time, at the election of the holders of the securities. In connection with this transaction, there is no contingent consideration payable in the future.

The following is a summary of the estimated fair values of the assets acquired and liabilities as of February 19, 2014, the date they were assumed:

Cash and cash equivalents	\$24,381
Investments	20,905
Investments of consolidated CLOs	1,226,174
Other assets of consolidated CLOs	186,609
Other assets	7,370
Intangible assets	65,880
Total assets	1,531,319
Liabilities	13,584
Debt obligations of consolidated CLOs	1,150,551
Other liabilities of consolidated CLOs	140,308
Total liabilities	1,304,443
Fair Value of Net Assets Acquired	226,876
Less: Fair value of subordinated notes of consolidated CLOs held by KKR prior to acquisition (a)	74,029
Less: Fair value of consideration transferred	139,798
Gain on acquisition	\$13,049

Represents subordinated notes in one of the consolidated CLOs held by KKR prior to the acquisition of (a) Avoca. Upon acquisition of Avoca, KKR’s investment in the subordinated notes was offset against the corresponding debt obligations of the consolidated CLO in purchase accounting.

As of February 19, 2014, the fair value of the net assets acquired exceeded the fair value of consideration transferred by approximately \$13.0 million and relates primarily to the difference between the fair value of the assets and liabilities of CLOs required to be consolidated in connection with the Avoca transaction. This amount has been recorded in net gains (losses) from investment activities in the condensed consolidated statements of operations.

On a segment basis, the financial results of Avoca are included within the Public Markets segment.

KKR incurred \$4.4 million of acquisition related costs through the date of closing, which were expensed as incurred and are reflected within General, Administrative and Other.

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15. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill from the acquisition of Prisma represents the excess of acquisition costs over the fair value of net tangible and intangible assets acquired and is primarily attributed to synergies expected to arise after the acquisition of Prisma. The carrying value of goodwill was \$89.0 million as of September 30, 2015 and December 31, 2014, and is recorded within Other Assets on the condensed consolidated statements of financial condition. Goodwill has been allocated entirely to the Public Markets segment. As of September 30, 2015, the fair value of KKR's reporting units substantially exceeded their respective carrying values. All of the goodwill is currently expected to be deductible for tax purposes. See Note 7 "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities."

Intangible Assets

Intangible Assets, Net consists of the following:

	As of	
	September 30, 2015	December 31, 2014
Finite-Lived Intangible Assets	\$284,766	\$284,766
Accumulated Amortization (includes foreign exchange)	(99,884	) (75,564
Intangible Assets, Net	\$184,882	\$209,202

Changes in Intangible Assets, Net consists of the following:

	Nine Months Ended	
	September 30, 2015	
Balance, Beginning of Period	\$209,202	
Amortization Expense	(20,277)
Foreign Exchange	(4,043)
Balance, End of Period	\$184,882	

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16. COMMITMENTS AND CONTINGENCIES

Debt Covenants

Borrowings of KKR contain various debt covenants. These covenants do not, in management's opinion, materially restrict KKR's operating business or investment strategies. KKR is in compliance with its debt covenants in all material respects as of September 30, 2015.

Investment Commitments

As of September 30, 2015, KKR had unfunded commitments consisting of (i) \$1,317.5 million to its active private equity and other investment vehicles and (ii) \$125.6 million in connection with commitments by KKR's capital markets business, (iii) \$128.6 million relating to Merchant Capital Solutions LLC and (iv) other investment commitments of \$155.8 million. Whether these amounts are actually funded, in whole or in part depends on the terms of such commitments, including the satisfaction or waiver of any conditions to funding.

Contingent Repayment Guarantees

The partnership documents governing KKR's 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 KKR in the acquisition of the assets and liabilities of KKR & Co. (Guernsey) L.P. (formerly known as KKR Private Equity Investors, L.P.) on October 1, 2009 (the “KPE Transaction”), as of September 30, 2015, no carried interest was subject to this clawback obligation, assuming that all applicable carry paying funds were liquidated at their September 30, 2015 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been \$2,486.7 million. Carried interest is recognized in the statement of operations based on the contractual conditions set forth in the agreements governing the fund as if the fund were terminated and liquidated at the reporting date and the fund's investments were realized at the then estimated fair values. Amounts earned pursuant to carried interest are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment amounts earned decrease or turn negative in subsequent periods, recognized carried interest will be reversed and to the extent that 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, a clawback obligation would be recorded. For funds that are consolidated, this clawback obligation, if any, is reflected as an increase in noncontrolling interests in the condensed consolidated statements of financial condition. For funds that are not consolidated, this clawback obligation, if any, is reflected as a reduction of KKR's investment balance as this is where carried interest is initially recorded.

Certain private equity funds that were contributed to KKR 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 KKR 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 KKR relative to the capital that KKR contributed to it as general partner.

Based on the fair market values as of September 30, 2015, 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 zero as of September 30, 2015.

Prior to the KPE Transaction in 2009, certain principals who received carried interest distributions with respect to certain private equity funds contributed to KKR 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 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, KKR's potential exposure has been reduced to \$159.7 million as of September 30, 2015. Using valuations as of September 30, 2015, no amounts are due with respect to the clawback obligation required to be funded by principals. Carry distributions arising subsequent to the KPE Transaction may give rise to clawback obligations that may be allocated generally to KKR and persons who participate in the carry pool. Unlike the clawback obligation, KKR will be

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responsible for all amounts due under a net loss sharing obligation and will indemnify 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 KKR owns may limit distributions of carried interest more generally.

Indemnifications

In the normal course of business, KKR enters into contracts that contain a variety of representations and warranties that provide general indemnifications and other indemnities relating to contractual performance. In addition, certain of KKR's consolidated funds and KFN have provided certain indemnities relating to environmental and other matters and has provided nonrecourse carve-out guarantees for fraud, willful misconduct and other customary wrongful acts, each in connection with the financing of certain real estate investments that KKR has made. KKR's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against KKR that have not yet occurred. However, based on experience, KKR expects the risk of material loss to be low.

Litigation

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

From December 19, 2013 to January 31, 2014, multiple putative class action lawsuits were filed in the Superior Court of California, County of San Francisco, the United States District Court of the District of Northern California, and the Court of Chancery of the State of Delaware by KFN shareholders against KFN, the then individual members of KFN's board of directors, KKR, and certain of KKR's affiliates in connection with KFN's entry into a merger agreement pursuant to which it would become a subsidiary of KKR. The merger transaction was completed on April 30, 2014. The actions filed in California state court were consolidated, and prior to the filing or designation of an operative complaint for the consolidated action, the consolidated action was voluntarily dismissed without prejudice on December 1, 2014. The complaint filed in the California federal court action, which was never served on the defendants, was voluntarily dismissed without prejudice on May 6, 2014. Two of the Delaware actions were voluntarily dismissed without prejudice, and the remaining Delaware actions were consolidated. On February 21, 2014, a consolidated complaint was filed in the consolidated Delaware action which all defendants moved to dismiss on March 7, 2014. On October 14, 2014, the Delaware Court of Chancery granted defendants' motions to dismiss with prejudice. On November 13, 2014, plaintiffs filed a notice of appeal in the Supreme Court of the State of Delaware, the oral argument for which was held on September 16, 2015. On October 2, 2015, the Supreme Court of the State of Delaware affirmed the dismissal of the case by the Delaware Court of Chancery.

The consolidated complaint in the Delaware action alleged that the members of the KFN board of directors breached fiduciary duties owed to KFN shareholders by approving the proposed transaction for inadequate consideration; approving the proposed transaction in order to obtain benefits not equally shared by other KFN shareholders; entering into the merger agreement containing preclusive deal protection devices; and failing to take steps to maximize the value to be paid to the KFN shareholders. The Delaware action also alleged that KKR, and certain of KKR's affiliates, aided and abetted the alleged breaches of fiduciary duties and that KKR was a controlling shareholder of KFN by means of a management agreement between KFN and KKR Financial Advisors LLC, a subsidiary of KKR, and KKR breached a fiduciary duty it allegedly owed to KFN shareholders by causing KFN to enter into the merger agreement. The relief sought in the Delaware action included, among other things, declaratory relief concerning the alleged breaches of fiduciary duties, compensatory damages, attorneys' fees and costs, and other relief.

KKR currently is and expects to continue to become, from time to time, subject to examinations, inquiries and investigations by various U.S. and non U.S. governmental and regulatory agencies, including but not limited to the U.S. Securities and Exchange Commission, or SEC, Department of Justice, state attorney generals, Financial Industry Regulatory Authority, or FINRA, and the U.K. Financial Conduct Authority. Such examinations, inquiries and investigations may result in the commencement of civil, criminal or administrative proceedings against KKR or its personnel.

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

KKR establishes an accrued liability for legal proceedings only when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. No loss contingency is recorded for matters where such losses are either not probable or reasonably estimable (or both) at the time of

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determination. Such matters may be subject to many uncertainties, including among others (i) the proceedings may be in early stages; (ii) damages sought may be unspecified, unsupported, unexplained or uncertain; (iii) discovery may not have been started or is incomplete; (iv) there may be uncertainty as to the outcome of pending appeals or motions; (v) there may be significant factual issues to be resolved; or (vi) there may be novel legal issues or unsettled legal theories to be presented or a large number of parties. Consequently, management is unable to estimate a range of potential loss, if any, related to these matters. In addition, loss contingencies may be, in part or in whole, subject to insurance or other payments such as contributions and/or indemnity, which may reduce any ultimate loss.

It is not possible to predict the ultimate outcome of all pending legal proceedings, and some of the matters discussed above seek or may seek potentially large and/or indeterminate amounts. As of such date, based on information known by management, management has not concluded that the final resolutions of the matters above will have a material effect upon the consolidated financial statements. However, given the potentially large and/or indeterminate amounts sought or may be sought in certain of these matters and the inherent unpredictability of investigations and litigations, it is possible that an adverse outcome in certain matters could, from time to time, have a material effect on KKR's financial results in any particular period.

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17. REGULATORY CAPITAL REQUIREMENTS

KKR has a registered broker-dealer subsidiary which is subject to the minimum net capital requirements of the SEC and the FINRA. Additionally, KKR entities based in London and Ireland are subject to the regulatory capital requirements of the U.K. Financial Conduct Authority and the Central Bank of Ireland, respectively. In addition, KKR has an entity based in Hong Kong which is subject to the capital requirements of the Hong Kong Securities and Futures Ordinance, an entity based in Japan subject to the capital requirements of Financial Services Authority of Japan, and two entities based in Mumbai which are subject to capital requirements of the Reserve Bank of India or RBI and the Securities and Exchange Board of India or SEBI. All of these entities have continuously operated in excess of their respective minimum regulatory capital requirements.

The regulatory capital requirements referred to above may restrict KKR's ability to withdraw capital from its registered broker-dealer entities. At September 30, 2015, approximately \$96.1 million of cash at KKR's registered broker-dealer entities may be restricted as to the payment of cash dividends and advances to KKR.

18. SUBSEQUENT EVENTS

Distribution

A distribution of \$0.35 per KKR & Co. L.P. common unit was announced on October 27, 2015, and will be paid on November 24, 2015 to unitholders of record as of the close of business on November 6, 2015. KKR Holdings will receive its pro rata share of the distribution from the KKR Group Partnerships.

KKR & Co. L.P. Unit Repurchase Program

On October 27, 2015, KKR announced the authorization of a program providing for the repurchase by KKR of up to \$500 million in the aggregate of its outstanding common units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing, manner, price and amount of any unit repurchases will be determined by KKR in its discretion and will depend on a variety of factors, including legal requirements, price and economic and market conditions. KKR expects that the program, which has no expiration date, will be in effect until the maximum approved dollar amount has been used to repurchase common units. The program does not require KKR to repurchase any specific number of common units, and the program may be suspended, extended, modified or discontinued at any time.

Distribution Policy

On October 27, 2015, KKR announced a change to its distribution policy effective beginning with the distribution anticipated to be declared in early 2016 with respect to the quarter ending December 31, 2015. Under the new distribution policy, KKR intends to make equal quarterly distributions to holders of its common units in an amount of \$0.16 per common unit per quarter. The declaration and payment of any distributions are subject to the discretion of the board of directors of the general partner of KKR and the terms of its limited partnership agreement. There can be no assurance that distributions will be made as intended or at all, that unitholders will receive sufficient distributions to satisfy payment of their tax liabilities as limited partners of KKR or that any particular distribution policy will be maintained.

Investment in Marshall Wace LLP

On September 9, 2015, KKR announced a long-term strategic relationship with Marshall Wace LLP and its affiliates ("Marshall Wace"). On November 2, 2015, KKR acquired a 24.9% interest in Marshall Wace through a combination

of cash and common units. In addition, KKR and Marshall Wace have the option to grow KKR's ownership interest over time to 39.9%. KKR's investment in Marshall Wace will be accounted for using the equity method of accounting.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of KKR & Co. L.P., together with its consolidated subsidiaries, and the related notes included elsewhere in this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Securities and Exchange Commission on February 27, 2015, including the audited consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein. The historical condensed 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. All amounts are in thousands, except unit data and per unit data and except where noted.

Overview

We are a leading global investment firm that manages investments across multiple asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds. We aim to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation in the assets we manage. We invest our own capital alongside the capital we manage for fund investors and bring debt and equity investment opportunities to others through our capital markets business.

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 260 private equity investments in portfolio companies with a total transaction value in excess of \$510 billion. We have grown our firm by expanding our geographical presence and building businesses in new areas, such as credit, special situations, hedge funds, collateralized loan obligations ("CLOs"), capital markets, infrastructure, energy and real estate. These 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.

We have also used our balance sheet as a significant source of capital to further grow and expand our business, increase our participation in our existing businesses and further align our interests with those of our fund investors and other stakeholders. The majority of our balance sheet consists of general partner interests in KKR investment funds, limited partner interests in certain KKR investment funds, and co-investments in certain portfolio companies of KKR private equity funds as well as the interests in CLOs, corporate loans, debt securities and energy and real estate assets acquired in connection with our acquisition of KKR Financial Holdings LLC. Our balance sheet also holds other assets used in the development of our business, including seed capital for new strategies, such as growth equity investments and real estate credit, and minority stakes in other investment managers.

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, CLOs, managed accounts 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 balance sheet 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.

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. These teams invest capital, a substantial portion of which is of a long duration and not subject to redemption. With approximately 75% of our fee paying assets under management

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not subject to redemption for at least 8 years from inception, we have significant flexibility to grow investments and select exit opportunities. 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.

Recent Developments

KKR & Co. L.P. Unit Repurchase Program

On October 27, 2015, KKR announced the authorization of a program providing for the repurchase by KKR of up to \$500 million in the aggregate of its outstanding common units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing, manner, price and amount of any unit repurchases will be determined by KKR in its discretion and will depend on a variety of factors, including legal requirements, price and economic and market conditions. KKR expects that the program, which has no expiration date, will be in effect until the maximum approved dollar amount has been used to repurchase common units. The program does not require KKR to repurchase any specific number of common units, and the program may be suspended, extended, modified or discontinued at any time.

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Investment in Marshall Wace LLP

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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 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 September 30, 2015, the segment had \$60.8 billion of AUM and FPAUM of \$46.2 billion, consisting of \$35.9 billion in private equity and \$10.3 billion in real assets (including infrastructure, energy and real estate) and other strategies. Prior to 2010, FPAUM in the Private Markets segment consisted entirely of private equity funds.

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The table below presents information as of September 30, 2015 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 September 30, 2015.

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	Investment Period (1)		Amount (\$ in millions)			Invested	Realized	Remaining Cost (3)	Remaining Fair Value
	Commencement Date	End Date	Commitment	Uncalled Commitment (2)	Percentage Committed by General Partner				
Private Markets									
Private Equity Funds									
European Fund IV	12/2014	12/2020	\$3,418.6	\$3,257.7	5.8%	\$160.9	\$—	\$160.9	\$197.2
Asian Fund II	4/2013	4/2019	5,825.0	3,839.1	1.3%	2,599.7	613.7	1,985.9	2,731.2
North America Fund XI	9/2012	9/2018	8,718.4	3,981.2	2.9%	5,555.7	1,597.7	4,357.9	6,268.5
China Growth Fund	11/2010	11/2016	1,010.0	399.5	1.0%	610.5	166.6	535.0	686.9
E2 Investors (Annex Fund)	8/2009	11/2013	195.8	—	4.9%	195.8	195.7	18.1	48.2
European Fund III	3/2008	3/2014	6,138.5	828.8	4.6%	5,309.7	4,392.7	3,278.6	4,312.4
Asian Fund	7/2007	4/2013	3,983.3	129.5	2.5%	3,853.8	5,343.1	1,973.0	2,541.8
2006 Fund	9/2006	9/2012	17,642.2	525.7	2.1%	17,116.5	17,585.2	8,178.0	13,456.0
European Fund II	11/2005	10/2008	5,750.8	—	2.1%	5,750.8	6,574.3	841.1	1,859.3
Millennium Fund	12/2002	12/2008	6,000.0	—	2.5%	6,000.0	11,901.7	1,156.2	2,156.7
European Fund	12/1999	12/2005	3,085.4	—	3.2%	3,085.4	8,748.0	—	17.8
Total Private Equity Funds			61,768.0	12,961.5		50,238.8	57,118.7	22,484.7	34,276.0
Co-Investment Vehicles	Various	Various	5,701.3	2,757.4	Various	3,038.5	1,801.7	2,183.5	3,177.9
Total Private Equity			67,469.3	15,718.9		53,277.3	58,920.4	24,668.2	37,453.9
Real Assets									
Energy Income and Growth Fund	9/2013	9/2018	1,974.2	1,217.7	12.8%	756.5	127.1	673.8	518.2
Natural Resources Fund	Various	Various	887.4	2.9	Various	884.5	96.6	809.9	243.6
Global Energy Opportunities	Various	Various	1,026.4	807.9	Various	252.7	53.8	220.9	139.8
Global Infrastructure Investors	9/2011	10/2014	1,040.1	129.8	4.8%	938.2	128.0	910.3	1,014.3
Global Infrastructure Investors II	10/2014	10/2020	3,037.5	2,842.1	4.1%	195.4	—	195.4	215.8

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Infrastructure Co-Investments	Various	Various	1,125.0	—	Various	1,125.0	356.5	1,125.0	1,542.3
Real Estate Partners Americas	5/2013	12/2016	1,229.1	614.1	16.3%	755.5	303.6	614.6	690.7
Real Estate Partners Europe	9/2015	(4)	277.0	277.0	36.1%	—	—	—	—
Real Assets			10,596.7	5,891.5		4,907.8	1,065.6	4,549.9	4,364.7
Private Markets Total			\$78,066.0	\$21,610.4		\$58,185.1	\$59,986.0	\$29,218.1	\$41,818.6

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 (1) 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.

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. (2) dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate that prevailed on September 30, 2015, in the case of uncalled commitments.

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

(4) Four years from final close.

The tables below present information as of September 30, 2015 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 that have been disposed of or have otherwise generated disposition proceeds or current income and has been distributed by the relevant fund. This data does not reflect additional capital raised since September 30, 2015 or acquisitions or disposals of investments, changes in investment values or distributions occurring after that date. Past performance is no guarantee of future results.

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Private Markets Investment Funds	Amount	Fair Value of Investments			Gross IRR (5)	Net IRR (5)	Multiple of Invested Capital (5)	
	Commitment	Invested (5)	Realized (5)	Unrealized Total Value				
(\$ in millions)								
Total Investments								
Legacy Funds (1)								
1976 Fund	\$31.4	\$31.4	\$ 537.2	\$ —	\$ 537.2	39.5	% 35.5	% 17.1
1980 Fund	356.8	356.8	1,827.8	—	1,827.8	29.0	% 25.8	% 5.1
1982 Fund	327.6	327.6	1,290.7	—	1,290.7	48.1	% 39.2	% 3.9
1984 Fund	1,000.0	1,000.0	5,963.5	—	5,963.5	34.5	% 28.9	% 6.0
1986 Fund	671.8	671.8	9,080.7	—	9,080.7	34.4	% 28.9	% 13.5
1987 Fund	6,129.6	6,129.6	14,949.2	—	14,949.2	12.1	% 8.9	% 2.4
1993 Fund	1,945.7	1,945.7	4,143.3	—	4,143.3	23.6	% 16.8	% 2.1
1996 Fund	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			