UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2012

Or

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

For the Transition period from to .

Commission File Number 001-34820

KKR & CO. L.P.

(Exact name of Registrant as specified in its charter)

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

9 West 57 th 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 x No o

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

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

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

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

As of May 2, 2012, there were 232,335,661 Common Units of the registrant outstanding.

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KKR & CO. L.P.

FORM 10-Q

For the Quarter Ended March 31, 2012

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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 and Section 21E of the Securities Exchange Act of 1934, 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, shoul approximately, predict, intend, will, plan, estimate, anticipate or the negative version of these words or other comparable words. Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in this report. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by applicable law.

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 & L.P. becoming listed on the New York Stock Exchange (NYSE) on July 15, 2010, KKR Group Holdings L.P. 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.

References to our Managing Partner are to KKR Management LLC, which acts as our general partner and unless otherwise indicated, references to equity interests in KKR s business, or to percentage interests in KKR s business, reflect the aggregate equity of the KKR Group Partnerships and are net of amounts that have been allocated to our principals in respect of the carried interest from KKR s business as part of our carry pool and certain minority interests. References to our principals are to our senior employees and non-employee operating consultants who hold interests in KKR s business through KKR Holdings L.P., which we refer to as KKR Holdings , and references to our senior principals are to principals who also hold interests in our Managing Partner entitling them to vote for the election of its directors.

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

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

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

In this report, the term economic net income (loss), or ENI , is a measure of profitability for KKR s reportable segments and is used by management as an alternative measurement of the operating and investment earnings of KKR and its business segments. We believe this measure is useful to investors as it provides additional insight into the overall profitability of KKR s businesses inclusive of investment income and carried interest. ENI is comprised of: (i) FRE; plus (ii) segment investment income (loss), which is reduced for carry pool allocations and management fee refunds; less (iii) certain economic interests in KKR s segments held by third parties. ENI differs from net income (loss) on a GAAP basis as a result of: (i) the exclusion of the items referred to in FRE above; (ii) the exclusion of investment income (loss) relating to noncontrolling interests; and (iii) the exclusion of income taxes.

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

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

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

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

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

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

(Amounts in Thousands, Except Unit Data)

	March 31, 2012	December 31, 2011
Assets		
Cash and Cash Equivalents	$ 611,213	$ 843,261
Cash and Cash Equivalents Held at Consolidated Entities	468,364	930,886
Restricted Cash and Cash Equivalents	109,768	89,828
Investments	41,263,384	37,495,360
Due from Affiliates	150,336	149,605
Other Assets	917,347	868,705
Total Assets	$ 43,520,412	$ 40,377,645
Liabilities and Equity		
Debt Obligations	$ 1,721,439	$ 1,564,716
Due to Affiliates	49,754	43,062
Accounts Payable, Accrued Expenses and Other Liabilities	1,733,826	1,085,217
Total Liabilities	3,505,019	2,692,995
Commitments and Contingencies		
Redeemable Noncontrolling Interests	415,709	275,507
Equity		
KKR & Co. L.P. Partners Capital (231,698,206 and 227,150,182 common units issued and outstanding as of March 31, 2012 and December 31, 2011, respectively)	1,511,754	1,330,887
Accumulated Other Comprehensive Income (Loss)	(1,481)	(2,189)
Total KKR & Co. L.P. Partners Capital	1,510,273	1,328,698
Noncontrolling Interests	38,089,411	36,080,445
Total Equity	39,599,684	37,409,143
Total Liabilities and Equity	$ 43,520,412	$ 40,377,645

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 March 31, 2012	Three Months Ended March 31, 2011
Revenues		
Fees	$ 116,307	$ 231,843
Expenses		
Compensation and Benefits	372,410	356,554
Occupancy and Related Charges	15,197	12,554
General, Administrative and Other	57,651	54,644
Total Expenses	445,258	423,752
Investment Income (Loss)		
Net Gains (Losses) from Investment Activities	3,086,865	2,487,209
Dividend Income	172,939	4,808
Interest Income	76,199	65,368
Interest Expense	(18,005)	(17,252)
Total Investment Income (Loss)	3,317,998	2,540,133
Income (Loss) Before Taxes	2,989,047	2,348,224
Income Taxes	17,072	30,783
Net Income (Loss)	2,971,975	2,317,441
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	5,272	
Net Income (Loss) Attributable to Noncontrolling Interests	2,776,267	2,157,876
Net Income (Loss) Attributable to KKR & Co. L.P.	$ 190,436	$ 159,565
Distributions Declared per KKR & Co. L.P. Common Unit	$ 0.15	$ 0.21
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit		
Basic	$ 0.83	$ 0.75
Diluted	$ 0.80	$ 0.75
Weighted Average Common Units Outstanding		
Basic	229,099,335	213,479,630
Diluted	237,832,106	213,509,630

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Amounts in Thousands)

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
Net Income (Loss)	$	2,971,975	$	2,317,441
Other Comprehensive Income, Net of Tax:				
Foreign Currency Translation Adjustments		3,627		1,872
Comprehensive Income		2,975,602		2,319,313
Less: Comprehensive Income Attributable to Redeemable Noncontrolling Interests		5,272		
Less: Comprehensive Income Attributable to Noncontrolling Interests		2,779,138		2,159,089
Comprehensive Income Attributable to KKR & Co. L.P.	$	191,192	$	160,224

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.					
	Common Units	**Partners Capital**	**Accumulated Other Comprehensive Income**	**Noncontrolling Interests**	**Total Equity**	**Redeemable Noncontrolling Interests**
Balance at January 1, 2011	212,770,091	1,324,530	1,963	34,673,549	36,000,042	
Net Income (Loss)		159,565		2,157,876	2,317,441	
Other Comprehensive Income-Foreign Currency Translation Adjustments			659	1,213	1,872	
Contribution of Net Assets of previously Unconsolidated Entities				69,600	69,600	
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	3,547,696	36,097	30	(36,127)		
Deferred Tax Effects Resulting from Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units		203			203	
Equity Based Compensation				141,982	141,982	
Capital Contributions				1,240,669	1,240,669	
Capital Distributions		(62,003)		(2,411,410)	(2,473,413)	
Balance at March 31, 2011	216,317,787	$ 1,458,392	$ 2,652	$ 35,837,352	$ 37,298,396	$

	KKR & Co. L.P.					
	Common Units	**Partners Capital**	**Accumulated Other Comprehensive Income**	**Noncontrolling Interests**	**Total Equity**	**Redeemable Noncontrolling Interests**
Balance at January 1, 2012	227,150,182	1,330,887	(2,189)	36,080,445	37,409,143	275,507
Net Income (Loss)		190,436		2,776,267	2,966,703	5,272
Other Comprehensive Income-Foreign Currency Translation Adjustments			756	2,871	3,627	
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	4,548,024	46,269	(40)	(46,229)		
Deferred Tax Effects Resulting from Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units		587	(8)		579	
Equity Based Compensation		16,263		98,078	114,341	
Capital Contributions				742,315	742,315	135,110
Capital Distributions		(72,688)		(1,564,336)	(1,637,024)	(180)
Balance at March 31, 2012	231,698,206	$ 1,511,754	$ (1,481)	$ 38,089,411	$ 39,599,684	$ 415,709

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)

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011
Operating Activities		
Net Income (Loss)	$ 2,971,975	$ 2,317,441
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Equity Based Compensation	114,341	141,982
Net Realized (Gains) Losses on Investments	(553,020)	(1,514,858)
Change in Unrealized (Gains) Losses on Investments	(2,533,845)	(972,351)
Other Non-Cash Amounts	(2,324)	(9,962)
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Change in Cash and Cash Equivalents Held at Consolidated Entities	462,405	476,607
Change in Due from / to Affiliates	(9,666)	(6,068)
Change in Other Assets	(32,954)	(248)
Change in Accounts Payable, Accrued Expenses and Other Liabilities	273,511	111,876
Investments Purchased	(2,834,649)	(1,988,018)
Cash Proceeds from Sale of Investments	2,508,720	3,023,861
Net Cash Provided (Used) by Operating Activities	364,494	1,580,262
Investing Activities		
Change in Restricted Cash and Cash Equivalents	(19,940)	(29,761)
Purchase of Furniture, Computer Hardware and Leasehold Improvements	(6,485)	(348)
Net Cash Provided (Used) by Investing Activities	(26,425)	(30,109)
Financing Activities		
Distributions to Partners	(72,688)	(62,003)
Distributions to Redeemable Noncontrolling Interests	(180)	
Contributions from Redeemable Noncontrolling Interests	135,110	
Distributions to Noncontrolling Interests	(1,525,967)	(2,411,410)
Contributions from Noncontrolling Interests	742,315	1,240,669
Proceeds from Debt Obligations	245,206	
Repayment of Debt Obligations	(89,174)	
Deferred Financing Costs	(4,739)	(8,554)
Net Cash Provided (Used) by Financing Activities	(570,117)	(1,241,298)
Net Increase/(Decrease) in Cash and Cash Equivalents	(232,048)	308,855
Cash and Cash Equivalents, Beginning of Period	843,261	738,693
Cash and Cash Equivalents, End of Period	$ 611,213	$ 1,047,548

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

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

(Amounts in Thousands)

	For the Three Months Ended March 31,			
	2012		2011	
Supplemental Disclosures of Cash Flow Information				
Payments for Interest	$	17,791	$	14,777
Payments for Income Taxes	$	34,521	$	23,553
Supplemental Disclosures of Non-Cash Investing and Financing Activities				
Non-Cash Contributions of Equity Based Compensation	$	114,341	$	141,982
Non-Cash Distributions to Noncontrolling Interests	$	38,369	$	
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	$	46,229	$	36,127
Net Deferred Tax Effects Resulting from Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units Including the Effect of the Tax Receivable Agreement	$	579	$	203
Foreign Exchange Gains (Losses) on Debt Obligations	$	640	$	
Contribution of Net Assets of Previously Unconsolidated Entities				
Investments	$		$	57,722
Cash and Cash Equivalents Held at Consolidated Entities	$		$	11,504
Due from Affiliates	$		$	4,244
Other Assets	$		$	4,164
Accounts Payable, Accrued Expenses and Other Liabilities	$		$	8,034

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(All Dollars are 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 offers a broad range of investment management services to investors and provides capital markets services for the firm, its portfolio companies and third parties. Led by Henry Kravis and George Roberts, KKR conducts business with offices around the world, which provides a global platform for sourcing transactions, raising capital and carrying out capital markets activities. KKR operates as a single professional services firm and carries out its investment activities under the KKR brand name.

KKR & Co. L.P. 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, and (ii) KKR Fund Holdings L.P. (Fund Holdings and together with Management Holdings, the KKR Group Partnerships) directly and through KKR Fund Holdings GP Limited, a Cayman Island limited company which is a disregarded entity for U.S federal income tax purposes. Group Holdings also owns certain economic interests in Management Holdings through a wholly owned Delaware corporate subsidiary of KKR Management Holdings Corp. and certain economic interests in Fund Holdings through a Delaware partnership of which Group Holdings is the general partner with a 99% economic interest and KKR Management Holdings Corp. is a limited partner with a 1% economic interest. 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 equity 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 s principals through KKR Holdings L.P. (KKR Holdings), which is not a subsidiary of KKR. As of March 31, 2012, KKR & Co. L.P. held 33.91% of the KKR Group Partnership Units and KKR s principals held 66.09% of the KKR Group Partnership Units through KKR Holdings. The percentage ownership in the KKR Group Partnerships will continue to change as KKR Holdings and/or KKR s principals exchange units in the KKR Group Partnerships for KKR & Co. L.P. common units.

The following table presents the effects of changes in the ownership interest in the KKR Group Partnerships on KKR & Co. L.P. s equity:

	Three Months Ended March 31,

	2012	2011
Net income (loss) attributable to KKR & Co. L.P.	$ 190,436	$ 159,565
Transfers from noncontrolling interests:		
Increase in KKR & Co. L.P. partners capital for exchange of 4,548,024 and 3,547,696 KKR Group Partnership units held by KKR Holdings L.P. for the three months ended March 31, 2012 and 2011, respectively, net of deferred taxes	46,808	36,330
Change from net income (loss) attributable to KKR & Co. L.P. and transfers from noncontrolling interests held by KKR Holdings L.P.	$ 237,244	$ 195,895

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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, 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 its 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. These condensed consolidated financial statements should be read in conjunction with the audited consolidated and combined financial statements included in KKR & Co. L.P. s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

The condensed consolidated financial statements (referred to hereafter as the financial statements) include the accounts of KKR s management and capital markets companies, the general partners of certain unconsolidated vehicles, general partners of its consolidated vehicles and their respective consolidated funds (the KKR Funds) and certain other entities.

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

References in the accompanying financial statements to KKR s principals are to KKR s senior employees and non-employee operating consultants who hold interests in KKR s business through KKR Holdings, including those principals who also hold interests in our Managing Partner entitling them to vote for the election of its directors (the Senior Principals).

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.

Consolidation

General

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

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With respect to the consolidated KKR Funds, KKR generally has operational discretion and control, and limited partners have no substantive rights to impact ongoing governance and operating activities of the fund. The KKR Funds are consolidated by KKR notwithstanding the fact that KKR has only a minority economic interest in those funds. KKR s financial statements reflect the assets, liabilities, fees, expenses, investment income (loss) and cash flows of the consolidated KKR Funds on a gross basis, and the majority of the economic interests in those funds, which are held by third party investors, are attributed to noncontrolling interests in the accompanying 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.

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

All intercompany transactions and balances have been eliminated.

Variable Interest Entities

KKR consolidates all VIEs in which it is considered the primary beneficiary. An enterprise is determined to be the primary beneficiary if it has a controlling financial interest under GAAP. A controlling financial interest is defined as (a) the power to direct the activities of a variable interest entity that most significantly impact the entity s business and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The consolidation rules which were revised effective January 1, 2010 require an analysis to (a) determine whether an entity in which KKR has a variable interest is a VIE and (b) whether KKR s involvement, through the holding of equity interests directly or indirectly in the entity or contractually through other variable interests unrelated to the holding of equity interests, would give it a controlling financial interest under GAAP. Performance of that analysis requires the exercise of judgment. Where KKR has an interest in an entity that has qualified for the deferral of the consolidation rules, the analysis is based on consolidation rules prior to January 1, 2010. These rules require an analysis to (a) determine whether an entity in which KKR has a variable interest is a VIE and (b) whether KKR s involvement, through the holding of equity interests directly or indirectly in the entity or contractually through other variable interests would be expected to absorb a majority of the variability of the entity. Under both guidelines, KKR determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion at each reporting date. In evaluating whether KKR is the primary beneficiary, KKR evaluates its economic interests in the entity held either directly by KKR or indirectly through related parties. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that KKR is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by KKR, affiliates of KKR or third parties) or amendments to the governing documents of the respective entities could affect an entity s status as a VIE or the determination of the primary beneficiary. At each reporting date, KKR assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly. KKR s accounting conclusion under the existing consolidation rules determined that effective January 1, 2011, KKR became the primary beneficiary of certain entities and consolidated such entities that were unconsolidated prior to that date.

As of March 31, 2012 and December 31, 2011, the maximum exposure to loss for those VIEs in which KKR is determined not to be the primary beneficiary but in which it has a variable interest is as follows:

	March 31, 2012	December 31, 2011
Investments	$ 68,366	$ 61,053
Due from Affiliates, net	4,392	2,095
Maximum Exposure to Loss	$ 72,758	$ 63,148

For those unconsolidated VIEs in which KKR is the sponsor, KKR may have an obligation as general partner to provide commitments to such funds. As of March 31, 2012 and December 31, 2011, KKR did not provide any support other than its obligated amount.

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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. Accordingly, disaggregation of KKR s involvement with VIEs would not provide more useful information.

Redeemable Noncontrolling Interests

Redeemable Noncontrolling Interests represent noncontrolling interests of certain investment vehicles and funds that are subject to periodic redemption by 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. Limited partner interests subject to redemption as described above are presented as Redeemable Noncontrolling Interests within the condensed consolidated statements of financial condition and presented as Net Income (Loss) attributable to Redeemable Noncontrolling Interests within the condensed consolidated statements of operations. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the 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 Partners Capital in the 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.

Noncontrolling Interests in Consolidated Entities

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

(i) third party investors in the KKR Funds;

(ii) a former principal and such person s designees representing an aggregate of 1% of the carried interest received by the general partners of KKR s funds and 1% of KKR s other profits (losses) until a future date;

(iii) certain of KKR s former principals and their designees representing a portion of the carried interest received by the general partners of KKR s private equity funds that was allocated to them with respect to private equity investments made during such former principals previous tenure with KKR;

(iv) certain of KKR s current and former principals representing all of the capital invested by or on behalf of the general partners of KKR s private equity funds prior to October 1, 2009 and any returns thereon; and

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

Noncontrolling Interests held by KKR Holdings

Noncontrolling interests held by KKR Holdings include economic interests held by KKR s principals in the KKR Group Partnerships. KKR s 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 profit-based cash amounts are not paid by KKR and are borne by KKR Holdings.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Balance at the beginning of the period	$ 4,342,157	$ 4,346,388
Net income (loss) attributable to noncontrolling interests held by KKR Holdings (a)	404,191	408,904
Other comprehensive income (b)	2,670	1,180
Exchange of KKR Holdings units to KKR & Co. L.P. units (c)	(46,229)	(36,127)
Equity Based Compensation	98,077	141,982
Capital contributions	714	2,680
Capital distributions	(240,966)	(177,439)
Balance at the end of the period	$ 4,560,614	$ 4,687,568

(a) Refer to 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.

Income (loss) attributable to KKR after allocation to noncontrolling interests, 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 contribution of certain expenses borne entirely by KKR Holdings as well as the periodic exchange of KKR Holdings units for KKR & Co. L.P. common units pursuant to the exchange agreement, the 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 the calculation of Net income (loss) attributable to noncontrolling interests held by KKR Holdings:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income (loss)	$ 2,971,975	$ 2,317,441
Less: Net income (loss) attributable to Redeemable Noncontrolling Interests	5,272	
Less: Net income (loss) attributable to Noncontrolling Interests in consolidated entities	2,372,076	1,748,972

Plus: Income taxes attributable to KKR Management Holdings Corp.		13,344		26,351
Net income (loss) attributable to KKR & Co. L.P. and KKR Holdings	$	607,971	$	594,820
Net income (loss) attributable to noncontrolling interests held by KKR Holdings (a)	$	404,191	$	408,904

(a) Net income (loss) attributable to KKR Holdings is based on the weighted average KKR Group Partnership Units held by KKR Holdings during the reporting period.

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Investments

Investments consist primarily of private equity, fixed income, 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 accompanying 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.

Private Equity **-** Consists primarily of investments in Portfolio Companies of KKR Funds and investments in infrastructure, natural resources and real estate.

Fixed Income - 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 collateralized loan obligations.

Other Consists primarily of investments in common stock, preferred stock, warrants and options of companies that are not private equity or fixed income investments.

Securities Sold Short

Whether part of a hedging transaction or a transaction in its own right, securities sold short, represent obligations of KKR to deliver the specified security at the contracted price at a future point in time, and thereby create a liability to repurchase the security in the market at the prevailing prices. The liability for such securities sold short is marked to market based on the current fair value of the underlying security at the reporting date with changes in fair value recorded as unrealized gains or losses in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. These transactions may involve a market risk in excess of the amount currently reflected in the accompanying statements of financial condition.

Derivatives

Derivative contracts include forward, swap and option contracts related to foreign currencies and credit standing of reference entities to manage foreign exchange risk and credit risk arising from certain assets and liabilities. All derivatives are recognized as either assets or liabilities in the condensed consolidated statements of financial condition and measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. KKR s derivate financial instruments contain credit risk to the extent that its counterparties may be unable to meet the terms of the agreements. KKR attempts to minimize this risk by limiting its counterparties to major financial institutions with strong credit ratings.

Fair Value Measurements

Investments and other financial instruments are measured and carried at fair value. The majority of the investments and other financial instruments are held by the consolidated KKR Funds. The KKR 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 KKR Funds in consolidation. Accordingly, the unrealized gains and losses resulting from changes in fair value of the investments held by the KKR Funds are reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations.

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For investments and certain other financial instruments that are not held in a consolidated KKR Fund, KKR has elected the fair value option since these investments and other financial instruments are similar to those in the consolidated KKR Funds. 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 methodology applied to investments and other financial instruments that are held in consolidated KKR Funds.

The carrying amount of cash and cash equivalents, cash and cash equivalents held at consolidated entities, restricted cash and cash equivalents, due from / to affiliates, other assets, accounts payable, accrued expenses and other liabilities approximate fair value due to their short-term maturities. KKR s debt obligations, except for KKR s Senior Notes, bear interest at floating rates and therefore fair value approximates carrying value. Further information on KKR s Senior Notes is presented in Note 8, Debt Obligations. The fair value for KKR s Senior Notes was derived using Level II inputs similar to those utilized in valuing fixed income investments.

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 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 from highest to lowest:

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 and debt, and securities sold short.

Level II

Inputs 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 asset or liability. The type of investments and other financial instruments included in this category are fixed income investments, convertible debt securities indexed to publicly-listed securities, and certain over-the-counter derivatives.

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 and fixed income investments 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

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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.

Level II Valuation Methodologies

Financial assets and liabilities categorized as Level II consist primarily of debt securities indexed to publicly-listed securities and fixed income and other investments. Fixed income investments 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 asset. Ask prices represent the lowest price that KKR and others are willing to accept for an asset. 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 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. For debt securities indexed to publicly listed securities, such as convertible debt, 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.

Level III Valuation Methodologies

The valuation methodologies used for the assets that are valued using Level III of the fair value hierarchy are described below.

Private Equity Investments: KKR generally employs two valuation methodologies when determining the fair value of a private equity investment (including infrastructure and natural resources investments). 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. 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.

Fixed Income Investments: Fixed income investments are valued using values obtained from dealers or market makers, and where these values are not available, fixed income investments are valued by KKR using internally developed valuation models. 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: Other investments primarily represent privately-held equity and equity-like securities (e.g. warrants) in companies that are not private equity or fixed income investments. KKR generally employs the same valuation methodologies as described above for private equity investments when valuing these other investments.

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 our valuation methodologies. KKR s reported fair value estimates could vary materially if we had chosen to incorporate different unobservable pricing inputs and other assumptions or, for applicable investments, if we only used either the discounted cash flow methodology or the market comparables methodology instead of assigning a weighting to both methodologies.

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Level III Valuation Process

The valuation process involved for Level III measurements for private equity, fixed income, and other investments 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 valuation committee for private equity investments and a valuation committee for fixed income and other investments. Each committee is assisted by a valuation team, which is comprised only of employees who are not investment professionals responsible for preparing preliminary valuations or for oversight of any 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 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 for all Level III investments, except for certain investments other than KKR private equity investments. All preliminary valuations are then reviewed by the applicable valuation committee, and after reflecting any input by their respective valuation committees, the preliminary valuations are presented to a single committee consisting of Senior Principals involved in various aspects of the KKR business. When these valuations are approved by this single committee after reflecting any input from it, the valuations are presented to the audit committee of KKR s board of directors and are then reported on to the board of directors.

As of March 31, 2012, upon completion by the independent valuation firm of certain limited procedures requested to be performed by them, the independent valuation firm concluded that the fair values, as determined by KKR, of the investments reviewed by them were reasonable.

Fees

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

For the three months ended March 31, 2012 and 2011, fees consisted of the following:

	Three Months Ended March 31,			
		2012		2011
Transaction Fees	$	43,662	$	86,665
Monitoring & Consulting Fees		42,770		113,744
Management Fees		20,205		19,421
Incentive Fees		9,670		12,013
Total Fee Income	$	116,307	$	231,843

Transaction Fees

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

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

Monitoring and Consulting Fees

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

In connection with the monitoring of Portfolio Companies and certain unconsolidated funds, KKR receives reimbursement for certain expenses incurred on behalf of these entities. Costs incurred in monitoring these entities are classified as general, administrative and other expenses and reimbursements of such costs are classified as monitoring fees.

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Consulting fees are earned by certain consolidated entities for consulting services provided 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.

Management Fees

Management fees are earned by KKR for management services provided to private equity funds, other investment vehicles, structured finance vehicles, separately managed accounts and a specialty finance company which are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement. Management fees earned from private equity funds and certain investment vehicles are based upon a percentage of capital committed during the investment period, and thereafter based on remaining invested capital. For certain other investment vehicles, structured finance vehicles, separately managed accounts and a specialty finance vehicle, management fees are recognized in the period during which the related services are performed and are based upon the net asset value, gross assets or as otherwise defined in the respective agreements.

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

Incentive Fees

KKR s management agreement with a specialty finance company entitles KKR to quarterly incentive fees. The incentive fees are calculated and paid quarterly in arrears and are not subject to any hurdle or clawback provisions. The management agreement with the specialty finance company was renewed on January 1, 2012 and will automatically be renewed for successive one-year terms following December 31, 2012 unless the agreement is terminated in accordance with its terms.

Compensation and Benefits

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

All KKR principals and other employees of certain consolidated entities receive a base salary that is paid by KKR or its consolidated entities, and is accounted for as Compensation and Benefits expense. These employees are also eligible to receive discretionary cash bonuses based on performance, overall profitability and other matters. While cash bonuses paid to most employees are funded by KKR and certain consolidated entities and result in customary Compensation and Benefits expense, cash bonuses that are paid to certain of KKR s most senior employees are funded by KKR Holdings with distributions that it receives on its KKR Group Partnership Units. To the extent that distributions received by these individuals exceed the amounts that they are otherwise entitled to through their vested units in KKR Holdings, this excess is funded by KKR Holdings and reflected in Compensation and Benefits in the consolidated statements of operations.

Further disclosure regarding equity-based payments is presented in Note 10 Equity Based Compensation.

Carried Interest

Carried interest entitles the general partner of a fund to a greater allocable share of the fund s earnings from investments relative to the capital contributed by the general partner and correspondingly reduce noncontrolling interests attributable share of those earnings. Amounts earned pursuant to carried interest are included as investment income (loss) in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations and are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reversed and reflected as investment losses in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Carried interest is recognized based on the contractual formula set forth in the agreements governing the fund as if

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the fund was terminated at the reporting date with the then estimated fair values of the investments realized. Due to the extended durations of KKR s private equity funds and other investment vehicles, KKR believes that this approach results in income recognition that best reflects the periodic performance of KKR in the management of those funds. See Note 12 Segment Reporting for the amount of carried interest income earned or reversed for the three months ended March 31, 2012 and 2011.

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

Carry Pool Allocation

With respect to KKR s active and future funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals and other professionals a portion of the carried interest earned in relation to these funds as part of its carry pool. KKR currently allocates approximately 40% of the carry it earns from these funds and vehicles to its carry pool. These amounts are accounted for as compensatory profit-sharing arrangements in conjunction with the related carried interest income and recorded as compensation expense for KKR employees and general, administrative and other expense for certain non-employee consultants and service providers in the consolidated statements of operations. For the three months ended March 31, 2012 and 2011, KKR recorded expense related to the carry pool allocation of $191.5 million and $139.5 million respectively.

Tax Receivable Agreement

Certain exchanges of KKR Group Partnership Units from KKR Holdings or transferees of its KKR Group Partnership Units for KKR & Co. L.P. common units may occur pursuant to KKR s exchange agreement. These exchanges are expected to result in an increase in KKR Management Holdings Corp. s and its corporate subsidiary s share of the tax basis of the tangible and intangible assets of KKR Management Holdings, a portion of which is attributable to the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization for U.S. federal income tax purposes and therefore reduce the amount of income tax that our intermediate holding companies would otherwise be required to pay in the future. KKR & Co. L.P. entered into a tax receivable agreement with KKR Holdings pursuant to which our intermediate holding companies will be required to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income taxes that the intermediate holding companies actually realize as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding companies actually realize as a result of increases in tax basis that arise due to payments under the tax receivable agreement. Although KKR is not aware of any issue that would cause the IRS to challenge a tax basis increase, neither KKR Holdings nor its transferees will reimburse KKR for any payments previously made under the tax receivable agreement if such tax basis increase, or the benefits of such increases, were successfully challenged. Payments made under the tax receivable agreement are required to be made within 90 days of the filing of the tax return of KKR Management Holdings Corp. As of March 31, 2012, approximately $0.2 million of cumulative cash payments have been made under the tax receivable agreement. No amounts were paid for the three months ended March 31, 2012.

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

Recently Adopted Accounting Pronouncements

On January 1, 2012, KKR adopted ASU 2011-4, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting

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Standards. The ASU specifies that the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. The amendments include requirements specific to measuring the fair value of those instruments, such as equity interests used as consideration in a business combination. An entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds the instrument as an asset. With respect to financial instruments that are managed as part of a portfolio, an exception to fair value requirements is provided. That exception permits a reporting entity to measure the fair value of such financial assets and financial liabilities at the price that would be received to sell a net asset position for a particular risk or to transfer a net liability position for a particular risk in an orderly transaction between market participants at the measurement date. The amendments also clarify that premiums and discounts should only be applied if market participants would do so when pricing the asset or liability. Premiums and discounts related to the size of an entity s holding (e.g., a blockage factor) rather than as a characteristic of the asset or liability (e.g., a control premium) is not permitted in a fair value measurement.

The guidance also requires enhanced disclosures about fair value measurements, including, among other things, (a) for fair value measurements categorized within Level III of the fair value hierarchy, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) the valuation process used by the reporting entity, and (3) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any, and (b) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed (for example, a financial instrument that is measured at amortized cost in the statement of financial position but for which fair value is disclosed). The guidance also amends disclosure requirements for significant transfers between Level I and Level II and now requires disclosure of all transfers between Levels I and II in the fair value hierarchy. As a result of adopting ASU 2011-04, KKR expanded its fair value disclosures. See Note 5 Fair Value Measurements.

On January 1, 2012, KKR adopted ASU 2011-05, Comprehensive Income. The ASU provides an entity with an option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance is effective for fiscal years, and interim periods within those years beginning after December 15, 2011 and should be applied on a retrospective basis. KKR has adopted the presentation of total comprehensive income in two consecutive statements. See the Statements of Operations and Statements of Comprehensive Income (Loss).

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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 months ended March 31, 2012 and 2011, respectively.

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Net Realized Gains (Losses)	**Net Unrealized Gains (Losses)**	**Net Realized Gains (Losses)**	**Net Unrealized Gains (Losses)**
Private Equity Investments (a)	$ 527,976	$ 2,481,140	$ 1,477,472	$ 1,035,588
Fixed Income and Other (a)	50,613	133,574	35,437	35,755
Foreign Exchange Forward Contracts (b)	14,830	(66,440)	7,887	(93,986)
Foreign Currency Options (b)	(10,740)	7,830		(8,259)
Securities Sold Short (b)	(26,829)	(12,381)	(7,247)	3,752
Other Derivative Liabilities	(3,063)	(201)	(112)	(499)
Contingent Carried Interest Repayment Guarantee (c)		(8,687)		
Foreign Exchange Gains (Losses) on Debt Obligations	233	(873)		
Foreign Exchange Gains (Losses) on Cash and Cash Equivalents held at Consolidated Entities		(117)	1,421	
Total Net Gains (Losses) from Investment Activities	**$ 553,020**	**$ 2,533,845**	**$ 1,514,858**	**$ 972,351**

(a) See Note 4 Investments.

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

(c) See Note 13 Commitments and Contingencies.

4. INVESTMENTS

Investments consist of the following:

	Fair Value		Cost	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Private Equity	$ 37,388,553	$ 34,637,901	$ 33,818,142	$ 33,545,298
Fixed Income	2,752,605	2,228,210	2,632,979	2,199,390
Other	1,122,226	629,249	1,091,141	650,802
	$ 41,263,384	$ 37,495,360	$ 37,542,262	$ 36,395,490

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As of March 31, 2012 and December 31, 2011, Investments totaling $3,381,545 and $2,150,319, respectively, were pledged as direct collateral against various financing arrangements. See Note 8 Debt Obligations.

As of March 31, 2012 and December 31, 2011, private equity investments which represented greater than 5% of the total private equity investments included:

	Fair Value	
	March 31, 2012	December 31, 2011
Dollar General Corporation	$ 3,783,586	$ 3,399,221
Alliance Boots GmbH	2,710,147	2,459,263
HCA, Inc.	2,083,071	1,854,248
	$ 8,576,804	$ 7,712,732

The majority of the securities underlying private equity investments represent equity securities. As of March 31, 2012 and December 31, 2011, the fair value of investments that were other than equity securities amounted to $1,939,460 and $1,897,362, respectively.

5. FAIR VALUE MEASUREMENTS

The following tables summarize the valuation of KKR s investments and other financial instruments, which includes those for which the fair value option has been elected, measured and reported at fair value by the fair value hierarchy levels described in Note 2 Summary of Significant Accounting Policies as of March 31, 2012 and December 31, 2011.

Assets, at fair value:

	March 31, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Private Equity	$ 11,621,114	$ 1,939,460	$ 23,827,979	$ 37,388,553
Fixed Income	17,218	1,579,038	1,156,349	2,752,605
Other	681,833	317,932	122,461	1,122,226
Total Investments	12,320,165	3,836,430	25,106,789	41,263,384
Foreign Exchange Forward Contracts		47,784		47,784
Other Derivatives		2,347		2,347
Total Assets	$ 12,320,165	$ 3,886,561	$ 25,106,789	$ 41,313,515

December 31, 2011

Total

	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	
Private Equity	$ 10,772,277	$ 1,897,363	$ 21,968,261	$ 34,637,901
Fixed Income	16,847	1,194,604	1,016,759	2,228,210
Other	284,997	248,073	96,179	629,249
Total Investments	11,074,121	3,340,040	23,081,199	37,495,360
Foreign Exchange Forward Contracts		114,224		114,224
Other Derivatives		490		490
Total Assets	$ 11,074,121	$ 3,454,754	$ 23,081,199	$ 37,610,074

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Liabilities, at fair value:

	March 31, 2012							
	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	$	477,357	$		$		$	477,357
Foreign Currency Options				3,951				3,951
Other Derivatives				1,969				1,969
Total Liabilities	$	477,357	$	5,920	$		$	483,277

	December 31, 2011							
	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	$	202,908	$		$		$	202,908
Foreign Currency Options				11,736				11,736
Total Liabilities	$	202,908	$	11,736	$		$	214,644

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The following tables summarize changes in private equity, fixed income, and other investments measured and reported at fair value for which Level III inputs have been used to determine fair value for the three months ended March 31, 2012 and 2011, respectively.

	Three Months Ended March 31, 2012			
	Private Equity	Fixed Income	Other	Total Level III Investments
Balance, Beginning of Period	$ 21,968,261	$ 1,016,759	$ 96,179	$ 23,081,199
Transfers In (1)		311	1,061	1,372
Transfers Out (2)		(12,627)		(12,627)
Purchases	438,009	166,470	5,999	610,478
Sales	(48,537)	(34,360)		(82,897)
Settlements		(10,652)		(10,652)
Net Realized Gains (Losses)	22,465	7,242		29,707
Net Unrealized Gains (Losses)	1,447,781	23,206	19,222	1,490,209
Balance, End of Period	$ 23,827,979	$ 1,156,349	$ 122,461	$ 25,106,789
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to foreign- denominated investments) related to Investments still held at Reporting Date	$ 1,470,246	$ 26,373	$ 19,222	$ 1,515,841

(1) The Transfers In noted in the table above for fixed income and other investments are 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.

(2) The Transfers Out noted above for fixed income are principally attributable to certain investments that experienced a significant level of market activity during the period and thus were valued using observable inputs.

	Three Months Ended March 31, 2011			
	Private Equity	Fixed Income	Other	Total Level III Investments
Balance, Beginning of Period	$ 23,172,797	$ 666,014	$ 45,188	$ 23,883,999
Transfers In (1)		89,449		89,449
Transfers Out (2)	(4,333,220)		(3,830)	(4,337,050)
Purchases	790,489	158,334	42,904	991,727
Sales	(818,362)	(15,338)		(833,700)
Net Realized Gains (Losses)	574,985	741		575,726
Net Unrealized Gains (Losses)	1,307,005	25,275	3,513	1,335,793
Balance, End of Period	$ 20,693,694	$ 924,475	$ 87,775	$ 21,705,944
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to	$ 696,542	$ 25,470	$ 3,366	$ 725,378

foreign- denominated investments) related to
Investments still held at Reporting Date

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

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

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principally attributable to certain investments that experienced a significant level of market activity during the period and thus were valued using observable inputs.

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. There were no transfers between Level I and Level II during the three months ended March 31, 2012 and 2011, respectively.

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The following table presents additional information about valuation methodologies and inputs used for investments that are measured at fair value and categorized within Level III as of March 31, 2012:

Private equity investments	$	23,827,979	Inputs to both market comparables and discounted cash flow	Illiquidity Discount	10%	0% - 20%	(6)	Decrease
				Weight Ascribed to Market Comparables	48%	0% - 100%		(4)
				Weight Ascribed to Discounted Cash Flow	52%	0% - 100%		(5)
			Market comparables	Enterprise Value/LTM EBITDA Multiple	9x	4x - 15x	(7)	Increase
				Enterprise Value/Forward EBITDA Multiple	9x	4x - 14x	(7)	Increase
				Control Premium	1%	0% - 25%	(8)	Increase
			Discounted cash flow	Weighted Average Cost of Capital	10%	7% - 30%		Decrease
				Enterprise Value/LTM EBITDA Exit Multiple	9x	5x - 13x		Increase
Fixed income investments	$	950,342(9)	Market comparables	Discount Margin	1327 bps	504 bps - 6750 bps		Decrease
				Yield to Maturity	17%	6% - 69%		Decrease
				Total Leverage	5x	1x - 7x		Decrease
				Illiquidity Discount	3%	0% - 20%		Decrease

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(1) 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 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.

(3) 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 would have the opposite effect. Significant increases and decreases in these inputs in isolation could result in significantly higher or lower fair value measurements.

(4) 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 discounted cash flow approach. The opposite would be true if the market comparables approach results in a lower valuation than the discounted cash flow approach.

(5) 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 valuation than the market comparables approach. The opposite would be true if the discounted cash flow approach results in a lower valuation than the market comparables approach.

(6) All private equity investments are assigned a minimum 5% illiquidity discount, with the exception of investments in KKR s natural resources strategy.

(7) 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 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 27x and 21x, respectively. The exclusion of this investment does not impact the weighted average.

(8) Level III private equity investments whose valuations include a control premium represent less than 5% of total Level III private equity investments. The valuations for the remaining investments do not include a control premium.

(9) Amounts exclude $206.0 million of investments that were valued using dealer quotes or third party valuation firms and were therefore not subject to significant management judgment.

The table above excludes Other Investments in the amount of $122.5 million comprised primarily of privately-held equity and equity-like securities (e.g. warrants) in companies that are not private equity or fixed income 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 measurement as noted in the table above.

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6. EARNINGS PER COMMON UNIT

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

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

For the three months ended March 31, 2012 and 2011, basic and diluted earnings per common unit were calculated as follows:

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Basic	**Diluted**	**Basic**	**Diluted**
Net Income (Loss) Attributable to KKR & Co. L.P.	$ 190,436	$ 190,436	$ 159,565	$ 159,565
Net Income Attributable to KKR & Co. L.P. Per Common Unit	$ 0.83	$ 0.80	$ 0.75	$ 0.75
Total Weighted-Average Common Units Outstanding	229,099,335	237,832,106	213,479,630	213,509,630

For the three months ended March 31, 2012 and 2011, KKR Holdings units have been excluded from the calculation of diluted earnings per common unit given that the exchange of these units would proportionally increase KKR & Co. L.P. s interests in the KKR Group Partnerships and would have an anti-dilutive effect on earnings per common unit as a result of certain tax benefits KKR & Co. L.P. is assumed to receive upon the exchange.

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

Other assets consist of the following:

	March 31, 2012	December 31, 2011
Interest and Note Receivable (a)	$ 326,699	$ 319,402
Due from Broker (b)	209,167	
Unsettled Investment Sales (c)	91,590	230,970
Fixed Assets, net (d)	63,272	59,619
Foreign Exchange Forward Contracts (e)	47,784	114,224
Receivables	42,897	30,060
Deferred Tax Assets	28,981	34,125
Intangible Asset, net (f)	23,363	24,310
Deferred Financing Costs	21,085	17,691
Deferred Transaction Costs	13,009	8,987
Prepaid Expenses	15,721	10,709
Refundable Security Deposits	7,604	8,242
Other	26,175	10,366
	$ 917,347	$ 868,705

(a) Represents interest receivable and a promissory note received from a third party. The promissory note bears interest at a fixed rate of 3.0% per annum and matures on February 28, 2016.

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

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

(d) Net of accumulated depreciation and amortization of $83,076 and $80,501 as of March 31, 2012 and December 31, 2011, respectively. Depreciation and amortization expense totaled $2,572 and $2,670 for the three months ended March 31, 2012 and 2011, respectively.

(e) 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.

(f) Net of accumulated amortization of $14,523 and $13,576 as of March 31, 2012 and December 31, 2011, respectively. Amortization expense totaled $947 for the three months ended March 31, 2012 and 2011, respectively.

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

		March 31, 2012		December 31, 2011
Amounts Payable to Carry Pool (a)	$	607,929	$	448,818
Securities Sold Short (b)		477,357		202,908
Unsettled Investment Purchases (c)		339,910		49,668
Interest Payable		110,588		119,337
Accounts Payable and Accrued Expenses		70,447		105,453
Due to Broker (d)		53,492		33,103
Accrued Compensation and Benefits		45,640		12,744
Deferred Income		16,454		6,141
Taxes Payable		4,103		27,259
Foreign Currency Options (e)		3,951		11,736
Fund Subscriptions Received in Advance		25		68,050
Other Liabilities		3,930		
	$	1,733,826	$	1,085,217

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

(b) 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 basis for these instruments at March 31, 2012 and December 31, 2011 were $463,041 and $200,973, respectively.

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

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

(e) Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign denominated investments. The 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. The cost basis for these instruments at March 31, 2012 and December 31, 2011 was $18,746 and $18,791, respectively.

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8. DEBT OBLIGATIONS

Debt obligations consist of the following:

	March 31, 2012	December 31, 2011
Investment Financing Arrangements	$ 1,223,207	$ 1,066,536
Senior Notes	498,232	498,180
	$ 1,721,439	$ 1,564,716

Investment Financing Arrangements

Certain of KKR s investment vehicles have entered into financing arrangements with major financial institutions, generally in connection with specific investments with the objective of enhancing returns. These financing arrangements are generally not direct obligations of the general partners of KKR s investment vehicles or its management companies.

Approximately $796.4 million of financing was structured through the use of total return swaps which effectively convert third party capital contributions into borrowings of KKR. These total return swaps mature between October 2012 and February 2015. Upon the occurrence of certain events, including an event based on the value of the collateral and events of default, KKR may be required to provide additional collateral plus accrued interest, under the terms of certain of these financing arrangements. On May 4, 2011, the terms of one of the total return swaps were amended to extend the maturity, so that the total return swaps now expire in October 2012 and the per annum rate of interest was increased from LIBOR plus 1.35% to LIBOR plus 2.50%. As of March 31, 2012, the per annum rates of interest payable for the financings range from three-month LIBOR plus 1.75% to three-month LIBOR plus 2.50% (rates ranging from 2.29% to 3.04%). These financing arrangements are non-recourse to KKR beyond the specific assets pledged as collateral.

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

In April 2011, one of KKR s private equity investment vehicles entered into a revolving credit facility with a major financial institution (the Revolver Facility) with respect to a specific private equity investment. The Revolver Facility provides for up to $50.1 million of financing and matures on the first anniversary of the agreement. Upon the occurrence of certain events, including an event based on the value of the collateral and events of default, KKR may be required to provide additional collateral. KKR has the option to extend the agreement for an additional two years provided the value of the investment meets certain defined financial ratios. On April 5, 2012, an agreement was made to extend the maturity of the Revolver Facility to April 4, 2014. In addition, KKR may request to increase the commitment to the Revolver Facility up to $75.1 million, subject to lender approval and provided the value of the investment meets certain defined financial ratios. The per annum rate of interest for each borrowing under the Revolver Facility is equal to the Hong Kong interbank market rate plus 3.75%. The interest rate at March 31, 2012 on the borrowings outstanding ranged from 4.09% to 4.15%. As of March 31, 2012, $40.8 million of borrowings were outstanding under the Revolver Facility. This financing arrangement is non-recourse to KKR beyond the specific assets pledged as collateral.

During May 2011, a KKR investment vehicle entered into a $200.0 million non-recourse multi-currency three-year revolving credit agreement that bears interest at LIBOR plus 2.75% (the Mezzanine Investment Credit Agreement). The Mezzanine Investment Credit Agreement is expected to be used to manage timing differences between capital calls from limited partners in the investment vehicle and funding of investment opportunities and to borrow in foreign currencies for purposes of hedging the foreign currency risk of non-U.S. dollar investments. During the three months ended March 31, 2012, $52.0 million was drawn down and $89.2 million was repaid. As of March 31, 2012, $10.6 million of borrowings were outstanding under the Mezzanine Investment Credit Agreement. As of March 31, 2012, the interest rate on borrowings outstanding under the

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Mezzanine Investment Credit Agreement was 3.63%. This financing arrangement is non-recourse to KKR beyond the specific assets and capital commitments pledged as collateral.

In November 2011, a KKR investment vehicle entered into a $200.0 million five-year borrowing base revolving credit facility (the Lending Partners Credit Agreement). KKR has the option to extend the credit facility for up to two additional years. In addition, KKR may request to increase the commitment to the credit facility up to $400.0 million when the ratio of the loan commitments to committed equity capital is 1.50:1. On April 2, 2012, KKR increased the commitment to the credit facility to $400.0 million. The per annum rate of interest for each borrowing under the Lending Partners Credit Agreement ranges from LIBOR plus 1.75% for broadly syndicated loans and LIBOR plus 2.75% for all other loans until November 15, 2016 and thereafter, LIBOR plus 4.00% per annum for all loans. As of March 31, 2012, $13.1 million of borrowings were outstanding under the Lending Partners Credit Agreement. As of March 31, 2012, the interest rate on borrowings outstanding under the Lending Partners Credit Agreement was 3.05%. This financing arrangement is non-recourse to KKR beyond the specific assets pledged as collateral.

In December 2011, a KKR investment vehicle entered into a $66.5 million (50.0 million) one-year borrowing base revolving credit facility that bears interest at LIBOR plus 1.75% (the Investment Credit Agreement). The Investment Credit Agreement is expected to be used to manage timing differences between capital calls and the funding of investment opportunities. As of March 31, 2012, $30.2 million of borrowings were outstanding under the Investment Credit Agreement. As of March 31, 2012, the interest rate on borrowings outstanding under the Investment Credit Agreement was 2.73%. This financing arrangement is non-recourse to KKR beyond the specific assets and capital commitments pledged as collateral.

In January 2012, a KKR investment vehicle entered into a $200.0 million three-year borrowing base revolving credit facility (the KKR Debt Investors II Investment Credit Agreement). As of March 31, 2012, $150.0 million of borrowings were outstanding under the KKR Debt Investors II Investment Credit Agreement. As of March 31, 2012, the interest rate on borrowings outstanding under the KKR Debt Investors II Investment Credit Agreement was 3.50%. This financing arrangement is non-recourse to KKR beyond the specific assets pledged as collateral.

Senior Notes

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

The Senior Notes bear interest at a rate of 6.375% per annum, accruing from September 29, 2010. Interest is payable semi-annually in arrears on March 29 and September 29 of each year, commencing on March 29, 2011. Interest expense on the Senior Notes was $8.0 million for the three months ended March 31, 2012 and 2011. As of March 31, 2012, the fair value of the Senior Notes was $540.3 million.

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

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KKR Revolving Credit Agreements

Corporate Credit Agreement

On February 26, 2008, Kohlberg Kravis Roberts & Co. L.P. entered into a credit agreement with a major financial institution (the Corporate Credit Agreement). The Corporate Credit Agreement originally provided for revolving borrowings of up to $1.0 billion, with a $50.0 million sublimit for swing-line notes and a $25.0 million sublimit for letters of credit.

On February 22, 2011, the parties amended the terms of the Corporate Credit Agreement such that effective March 1, 2011, availability for borrowings under the credit facility was reduced from $1.0 billion to $700.0 million and the maturity was extended to March 1, 2016. In addition, the KKR Group Partnerships became co-borrowers of the facility, and KKR & Co. L.P. and the Issuer of the Senior Notes became guarantors of the amended and restated Corporate Credit Agreement, together with certain general partners of our private equity funds.

On June 3, 2011, the Corporate Credit Agreement was amended to admit a new lender, subject to the same terms and conditions, to provide a commitment of $50.0 million. This commitment has increased the availability for borrowings under the credit facility to $750.0 million. As of March 31, 2012, no borrowings were outstanding under the Corporate Credit Agreement. For the three months ended March 31, 2012, no amounts were drawn under the credit facility.

KCM Credit Agreement

On February 27, 2008, KKR Capital Markets entered into a revolving credit agreement with a major financial institution (the KCM Credit Agreement) for use in KKR s capital markets business. The KCM Credit Agreement, as amended, provides for revolving borrowings of up to $500 million with a $500 million sublimit for letters of credit. On March 30, 2012, an agreement was made to extend the maturity of the KCM Credit Agreement from February 27, 2013 to March 30, 2017. In addition to extending the terms, certain other terms of the KCM Credit Agreement were renegotiated including a reduction of the cost of funding on amounts drawn and a reduced commitment fee. Borrowings under this facility may only be used for our capital markets business. As of March 31, 2012, no borrowings were outstanding under the KCM Credit Agreement. For the three months ended March 31, 2012, no amounts were drawn under the credit facility.

9. INCOME TAXES

The KKR Group Partnerships and certain of their subsidiaries are treated as partnerships for U.S. federal income tax purposes and as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business tax or non-U.S. income taxes. In addition, certain of the wholly-owned subsidiaries of KKR are subject to federal, state and local income taxes.

KKR s effective tax rate was 0.57% and 1.31% for the three months ended March 31, 2012 and 2011, respectively. KKR s income tax provision was $17.1 million and $30.8 million for the three months ended March 31, 2012 and 2011, respectively.

The effective tax rate differs from the statutory rate for the three months ended March 31, 2012 and 2011 substantially due to the following: (a) a substantial amount of the reported net income (loss) before taxes is attributable to noncontrolling interests that hold ownership interests in consolidated entities and noncontrolling interests held by KKR Holdings, (b) certain corporate subsidiaries are subject to federal, state, local and foreign income taxes as applicable and other partnership subsidiaries are subject to New York City unincorporated business taxes, and (c) a portion of the compensation charges attributable to KKR is not deductible for tax purposes.

During the three month period ending March 31, 2012, there were no material changes to KKR s uncertain tax positions. KKR believes that there will not be a significant increase or decrease to the uncertain tax positions within 12 months of the reporting date.

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10. EQUITY BASED COMPENSATION

The following table summarizes the expense associated with equity based payments for the three months ended March 31, 2012 and 2011, respectively.

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
KKR Holdings Principal Awards	$ 73,889	$ 89,609
KKR Holdings Restricted Equity Units	4,129	7,856
Equity Incentive Plan Units	16,263	
Discretionary Compensation	20,060	44,517
Total	**$ 114,341**	**$ 141,982**

KKR Holdings Equity Awards Principal Awards

KKR principals and certain non-employee consultants and service providers received grants of KKR Holdings units which are exchangeable for KKR Group Partnership Units. These units are 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 March 31, 2012, KKR Holdings owns approximately 66.1%, or 451,666,211 of the outstanding KKR Group Partnership Units.

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

Because KKR Holdings is a partnership, all of the 451,666,211 KKR Holdings units have been legally allocated, but the allocation of 25,922,317 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 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 KKR Holdings unit grants 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.

Units granted to principals 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 ranges from 7% to 52%, multiplied by the number of unvested units on the grant date.

Units 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 units assumes a forfeiture rate of up to 10% annually based upon expected turnover by class of principal, consultant, or service provider.

As of March 31, 2012, there was approximately $298.1 million of estimated unrecognized equity-based payment and general administrative and other expense related to unvested awards. That cost is expected to be recognized over a weighted-average period of 1.0 years, using the graded attribution method, which treats each vesting portion as a separate award.

A summary of the status of KKR s unvested equity based awards granted to KKR principals from January 1, 2012 through March 31, 2012 are presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2012	91,741,793	$ 7.66
Granted	7,713,276	9.65
Vested		
Forfeited		
Balance, March 31, 2012	99,455,069	$ 7.81

The weighted average remaining vesting period over which unvested units are expected to vest is 1.6 years.

The following table summarizes the remaining vesting tranches for KKR principals:

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Vesting Date	Units
April 1, 2012	2,058,907
October 1, 2012	30,195,618
April 1, 2013	1,344,920
October 1, 2013	30,083,332
April 1, 2014	1,310,178
October 1, 2014	30,083,376
April 1, 2015	1,310,234
October 1, 2015	1,818,961
April 1, 2016	15,000
October 1, 2016	1,234,543
	99,455,069

KKR Holdings Equity Awards 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. These grants will be funded by KKR Holdings and will not dilute KKR s interests in the KKR Group Partnerships. The vesting of these restricted equity units occurs in installments up to five years from the date of grant.

As of March 31, 2012, there was approximately $9.6 million of estimated unrecognized expense related to unvested awards. That cost is expected to be recognized over a weighted average period of 0.9 years, using the graded attribution method, which treats each vesting portion as a separate award.

A summary of the status of KKR Holdings unvested restricted equity units granted to KKR professionals, support staff, and other personnel from January 1, 2012 through March 31, 2012 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2012	2,812,497	$ 10.90
Granted		
Vested		
Forfeited	(36,955)	10.68
Balance, March 31, 2012	2,775,542	$ 10.90

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

A summary of the remaining vesting tranches of KKR Holdings restricted equity awards granted to KKR professionals, support staff, and other personnel is presented below:

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Vesting Date	Units
April 1, 2012	228,884
October 1, 2012	1,447,459
April 1, 2013	212,013
October 1, 2013	262,208
April 1, 2014	183,567
October 1, 2014	255,549
April 1, 2015	157,533
October 1, 2015	28,329
	2,775,542

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

Under the KKR & Co. L.P. 2010 Equity Incentive Plan (the Equity Incentive Plan), KKR is permitted to grant 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 unit holders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR Group Partnerships.

The total number of common units that may be issued under the Equity Incentive Plan is equivalent to 15% of the number of fully diluted common units outstanding, subject to annual adjustment. As of March 31, 2012, equity awards relating to 18,050,871 KKR & Co. L.P. common units have been granted under the Equity Incentive Plan, certain of which vest over a period of up to five years from the date of grant. In certain cases, these awards are subject to transfer restrictions and 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 individuals 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 ranges from 7% to 52% multiplied by the number of unvested units on the grant date. Expense is recognized on a straight line basis over the life of the award and assumes a forfeiture rate of up to 10% annually based upon expected turnover by class of recipient.

As of March 31, 2012, there was approximately $132.6 million of estimated unrecognized expense related to unvested awards. That cost is expected to be recognized over a weighted average period of 1.6 years, using the straight line method.

A summary of the status of awards granted under the Equity Incentive Plan from January 1, 2012 through March 31, 2012 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2012	5,850,184	$ 9.69

Granted	11,665,430		9.54
Vested			
Forfeited	(15,421)		10.76
Balance, March 31, 2012	17,500,193	$	9.59

The weighted average remaining vesting period over which unvested awards are expected to vest is 2.0 years.

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

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Vesting Date	Units
April 1, 2012	869,324
October 1, 2012	2,108,496
April 1, 2013	2,698,616
October 1, 2013	1,920,426
April 1, 2014	2,632,401
October 1, 2014	1,876,209
April 1, 2015	2,537,738
October 1, 2015	1,374,590
April 1, 2016	472,663
October 1, 2016	1,002,494
April 1, 2017	7,236
	17,500,193

Discretionary Compensation and Discretionary Allocations

Certain KKR principals who hold KKR Group Partnership Units through KKR Holdings are expected to be allocated, on a discretionary basis, distributions on KKR Group Partnership Units received by KKR Holdings. These discretionary allocations allow the principal to receive amounts in excess of their vested equity interests. Because unvested units do not have distribution participation rights, any amounts allocated in excess of a principal s vested equity interests are reflected as employee compensation and benefits expense. These compensation charges have been recorded based on the unvested portion of quarterly earnings distributions received by KKR Holdings.

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11. RELATED PARTY TRANSACTIONS

Due from and to Affiliates consists of:

	March 31, 2012	December 31, 2011
Due from Principals (a)	$ 47,250	$ 55,937
Due from Related Entities	69,025	53,764
Due from Portfolio Companies	34,061	39,904
	$ 150,336	$ 149,605

	March 31, 2012	December 31, 2011
Due to KKR Holdings in Connection with the Tax Receivable Agreement (b)	$ 47,260	$ 40,320
Due to Related Entities	2,494	2,742
	$ 49,754	$ 43,062

(a) Represents an amount due from KKR principals for the amount of the clawback obligation that would be required to be funded by KKR principals who do not hold direct controlling and economic interests in the KKR Group Partnerships. See Note 13 Commitments and Contingencies .

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

KKR Financial Holdings LLC (KFN)

KFN is a publicly traded specialty finance company whose limited liability company interests are listed on the NYSE under the symbol KFN. KFN is managed by KKR but is not under the common control of the Senior Principals or otherwise consolidated by KKR as control is maintained by third-party investors. KFN was organized in August 2004 and completed its initial public offering on June 24, 2005. As of March 31, 2012 and December 31, 2011, KFN had consolidated assets of $8.8 billion and $8.6 billion, respectively, and shareholders equity of $1.8 billion and $1.7 billion, respectively. Shares of KFN held by KKR represented less than 1% of KFN s outstanding shares as of March 31, 2012. There were no outstanding shares of KFN held by KKR as of December 31, 2011. If KKR were to exercise all of its outstanding vested options, KKR s ownership interest in KFN would be less than 1% of KFN s outstanding shares as of March 31, 2012 and December 31, 2011, respectively.

Discretionary Investments

Certain of KKR s investment professionals, including its principals and other qualifying employees, are permitted to invest, and have invested, their own capital in side-by-side investments with its private equity funds and other investment vehicles. Side-by-side investments are made on the same terms and conditions as those acquired by the applicable fund or investment vehicle, except that the side-by-side investments are not subject to management fees or a carried interest. The cash invested by these individuals aggregated $35.9 million and $15.1 million for the three months ended March 31, 2012 and 2011, respectively. These investments are not included in the accompanying financial statements.

Aircraft and Other Services

Certain of the Senior Principals own aircraft that KKR uses for business purposes in the ordinary course of its operations. These Senior Principals paid for the purchase of these aircraft with personal funds and bear all operating, personnel and maintenance costs associated with their operation. The hourly rates that KKR pays for the use of these aircraft are based on current market rates for chartering private aircraft of the same type. KKR incurred $1.4 million and $1.2 million for the use of these aircraft for the three months ended March 31, 2012 and 2011, respectively.

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Facilities

Certain of the Senior Principals are partners in a real-estate based partnership that maintains an ownership interest in KKR s Menlo Park location. Payments made to this partnership were $1.7 million and $1.6 million for the three month periods ended March 31, 2012 and 2011, respectively.

12. SEGMENT REPORTING

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

Private Markets

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

Public Markets

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

Capital Markets and Principal Activities

KKR s Capital Markets and Principal Activities segment combines KKR s principal assets with its global capital markets business. KKR s capital markets business supports the firm, its portfolio companies and select third parties by providing tailored capital markets advice and by developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing. KKR s capital markets services include arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets services. KKR s principal asset base primarily includes investments in its private equity funds, co-investments in certain portfolio companies of such private equity funds, general partner interests in various KKR-sponsored investment funds, and other assets owned by the firm s balance sheet.

Key Performance Measures

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

FRE

FRE is comprised of segment operating revenues less segment operating expenses and is used by management as an alternative measurement of the operating earnings of KKR and its business segments before investment income. The components of FRE on a segment basis differ from the equivalent GAAP amounts on a consolidated basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity charges and other non-cash compensation charges borne by KKR Holdings or incurred under the Equity Incentive Plan; (vi) the exclusion of certain reimbursable expenses; and (vii) the exclusion of certain non-recurring items.

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ENI

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

Book Value

Book Value is a measure of the net assets of KKR s reportable segments and is used by management primarily in assessing the unrealized value of our investment portfolio, including carried interest, as well as KKR s overall liquidity position. Book value differs from the equivalent GAAP amounts on a consolidated basis primarily as a result of the exclusion of ownership interests in consolidated investment vehicles and other entities that are attributable to noncontrolling interests.

KKR s reportable segments are presented prior to giving effect to the allocation of income (loss) between KKR and KKR Holdings and as such represents KKR s business in total.

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The following table presents the financial data for KKR s reportable segments as of and for the three months ended March 31, 2012:

	As of and for the Three Months Ended March 31, 2012			
	Private Markets	**Public Markets**	**Capital Markets and Principal Activities**	**Total Reportable Segments**
Fees				
Management and incentive fees:				
Management fees	$ 106,912	$ 21,731	$	$ 128,643
Incentive fees		9,670		9,670
Management and incentive fees	106,912	31,401		138,313
Monitoring and transaction fees:				
Monitoring fees	25,822			25,822
Transaction fees	11,667	2,422	30,209	44,298
Fee credits (1)	(17,706)	(1,637)		(19,343)
Net monitoring and transaction fees	19,783	785	30,209	50,777
Total fees	126,695	32,186	30,209	189,090
Expenses				
Compensation and benefits	44,486	11,382	6,856	62,724
Occupancy and related charges	12,805	1,418	238	14,461
Other operating expenses	31,675	3,977	2,897	38,549
Total expenses	88,966	16,777	9,991	115,734
Fee related earnings	37,729	15,409	20,218	73,356
Investment income (loss)				
Gross carried interest	454,505	14,859		469,364
Less: Allocation to KKR carry pool (2)	(185,562)	(5,944)		(191,506)
Less: Management fee refunds (3)	(40,708)			(40,708)
Net carried interest	228,235	8,915		237,150
Other investment income (loss)	1,652	(23)	418,278	419,907
Total investment income (loss)	229,887	8,892	418,278	657,057
Income (loss) before noncontrolling interests in income of consolidated entities	267,616	24,301	438,496	730,413
Income (loss) attributable to noncontrolling interests (4)	2,296	431	484	3,211
Economic net income (loss)	$ 265,320	$ 23,870	$ 438,012	$ 727,202
Total Assets	$ 977,928	$ 82,917	$ 5,714,419	$ 6,775,264
Book Value	$ 818,495	$ 70,903	$ 5,187,758	$ 6,077,156

(1) KKR s agreements with the limited partners of certain of its investment funds require KKR to share with these limited partners an agreed upon percentage of monitoring and transaction fees received from Portfolio Companies (Fee Credits). Limited partners 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

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to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund.

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

(3) Certain of KKR s investment funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of cash management fees earned. In periods where investment returns subsequently decrease or turn negative, recognized carried interest will be reduced and consequently the amount of the management fee refund would be reduced resulting in income being recognized during the period. As of March 31, 2012, $66.0 million of carried interest is subject to management fee refunds, which may reduce carried interest recognized in future periods.

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

The following table reconciles KKR s total reportable segments to the financial statements as of and for the three months ended March 31, 2012:

	As of and for the Three Months Ended March 31, 2012		
	Total Reportable Segments	**Adjustments**	**Consolidated**
Fees(a)	$ 189,090	$ (72,783)	$ 116,307
Expenses(b)	$ 115,734	$ 329,524	$ 445,258
Investment income (loss)(c)	$ 657,057	$ 2,660,941	$ 3,317,998
Income (loss) before taxes	$ 730,413	$ 2,258,634	$ 2,989,047
Income (loss) attributable to redeemable noncontrolling interests	$	$ 5,272	$ 5,272
Income (loss) attributable to noncontrolling interests	$ 3,211	$ 2,773,056	$ 2,776,267
Total assets(d)	$ 6,775,264	$ 36,745,148	$ 43,520,412
Book Value (e)	$ 6,077,156	$ (4,566,883)	$ 1,510,273

(a) The fees adjustment primarily represents (i) the elimination of management fees of $108,438 upon consolidation of the KKR Funds, (ii) the elimination of Fee Credits of $18,707 upon consolidation of the KKR Funds, (iii) a gross up of reimbursable expenses of $3,660 and (iv) other adjustments of $13,288.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity based charges borne by KKR Holdings or granted under the Equity Incentive Plan, which amounted to $114,341 (ii) allocations to the carry pool of $191,506, (iii) a gross up of reimbursable expenses of $6,189, (iv) operating expenses of $15,813 primarily associated with the inclusion of operating expenses upon consolidation of the KKR Funds and other entities and (v) other adjustments of $1,675.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of investment income of $2,428,727 attributable to noncontrolling interests upon consolidation of the KKR Funds, (ii) allocations to the carry pool of $191,506, and (iii) exclusion of management fee refunds of $40,708.

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

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(e) The book value adjustment represents the exclusion of noncontrolling interests held by KKR Holdings of $4,560,614 and the equity impact of KKR Management Holdings Corp. equity and other of $6,269.

The reconciliation of net income (loss) attributable to KKR & Co. L.P. as reported in the condensed consolidated statements of operations to economic net income (loss) and fee related earnings consists of the following:

	Three Months Ended March 31, 2012
Net income (loss) attributable to KKR & Co. L.P.	$ 190,436
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings	404,191
Plus: Equity Based Compensation	114,341
Plus: Amortization of intangibles and other, net	1,162
Plus: Income taxes	17,072
Economic net income (loss)	727,202
Plus: Income attributable to segment noncontrolling interests	3,211
Plus: Investment income (loss)	(657,057)
Fee related earnings	$ 73,356

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The following table presents the financial data for KKR s reportable segments as of and for the three months ended March 31, 2011:

	As of and for the Three Months Ended March 31, 2011			
	Private Markets	Public Markets	Capital Markets and Principal Activities	Total Reportable Segments
Fees				
Management and incentive fees:				
Management fees	$ 110,257	$ 17,293	$	$ 127,550
Incentive fees		12,013		12,013
Management and incentive fees	110,257	29,306		139,563
Monitoring and transaction fees:				
Monitoring fees	90,427			90,427
Transaction fees	53,178	3,729	30,369	87,276
Fee credits (1)	(70,787)	(2,205)		(72,992)
Net monitoring and transaction fees	72,818	1,524	30,369	104,711
Total fees	183,075	30,830	30,369	244,274
Expenses				
Compensation and benefits	45,975	11,159	6,006	63,140
Occupancy and related charges	10,575	955	329	11,859
Other operating expenses	35,884	4,208	2,980	43,072
Total expenses	92,434	16,322	9,315	118,071
Fee related earnings	90,641	14,508	21,054	126,203
Investment income (loss)				
Gross carried interest	329,047	3,074		332,121
Less: Allocation to KKR carry pool (2)	(138,285)	(1,230)		(139,515)
Less: Management fee refunds (3)	(4,804)			(4,804)
Net carried interest	185,958	1,844		187,802
Other investment income (loss)	1,067	(351)	429,459	430,175
Total investment income (loss)	187,025	1,493	429,459	617,977
Income (loss) before noncontrolling interests in income of consolidated entities	277,666	16,001	450,513	744,180
Income (loss) attributable to noncontrolling interests (4)	927	138	595	1,660
Economic net income (loss)	$ 276,739	$ 15,863	$ 449,918	$ 742,520
Total Assets	$ 1,136,557	$ 65,777	$ 5,782,129	$ 6,984,463
Book Value	$ 919,103	$ 54,043	$ 5,228,415	$ 6,201,561

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(1) KKR s agreements with the limited partners of certain of its investment funds require KKR to share with these limited partners an agreed upon percentage of monitoring and transaction fees received from Portfolio Companies. Limited partners 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% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund.

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

(3) Certain of KKR s investment funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of cash management fees earned. In periods where investment returns subsequently decrease or turn negative, recognized carried interest will be reduced and consequently the amount of the management fee refund would be reduced resulting in income being recognized during the period. As of March 31, 2011, $62.4 million of carried interest was subject to management fee refunds, which may reduce carried interest recognized in future periods.

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

The following table reconciles KKR s total reportable segments to the financial statements as of and for the three months ended March 31, 2011:

	As of and for the Three Months Ended March 31, 2011		
	Total Reportable Segments	Adjustments	Consolidated
Fees(a)	$ 244,274	$ (12,431)	$ 231,843
Expenses(b)	$ 118,071	$ 305,681	$ 423,752
Investment income (loss)(c)	$ 617,977	$ 1,922,156	$ 2,540,133
Income (loss) before taxes	$ 744,180	$ 1,604,044	$ 2,348,224
Income (loss) attributable to redeemable noncontrolling interests	$	$	$
Income (loss) attributable to noncontrolling interests	$ 1,660	$ 2,156,216	$ 2,157,876
Total assets(d)	$ 6,984,463	$ 32,887,067	$ 39,871,530
Book Value (e)	$ 6,201,561	$ (4,740,517)	$ 1,461,044

(a) The fees adjustment primarily represents (i) the elimination of management fees of $108,129 upon consolidation of the KKR Funds, (ii) the elimination of Fee Credits of $72,381 upon consolidation of the KKR Funds, (iii) a gross up of reimbursable expenses of $10,602 and (iv) other adjustments of $12,715.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity based charges borne by KKR Holdings or granted under the Equity Incentive Plan, which amounted to $141,982 (ii) allocations to the carry pool of $139,515, (iii) a gross up of reimbursable expenses of $10,602, (iv) operating expenses of $10,763 primarily associated with the inclusion of operating expenses upon consolidation of the KKR Funds and other entities and (v) other adjustments of $2,819.

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(c) The investment income (loss) adjustment primarily represents (i) the inclusion of investment income of $1,777,837 attributable to noncontrolling interests upon consolidation of the KKR Funds, (ii) allocations to the carry pool of $139,515, and (iii) exclusion of management fee refunds of $4,804.

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

(e) The book value adjustment represents the exclusion of noncontrolling interests held by KKR Holdings of $4,687,568 and the equity impact of KKR Management Holdings Corp. equity and other of $52,949.

The reconciliation of net income (loss) attributable to KKR & Co. L.P. as reported in the condensed consolidated statements of operations to economic net income (loss) and fee related earnings consists of the following:

		Three Months Ended March 31, 2011
Net income (loss) attributable to KKR & Co. L.P.	$	159,565
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings		408,904
Plus: Equity Based Compensation		141,982
Plus: Amortization of intangibles and other, net		1,286
Plus: Income taxes		30,783
Economic net income (loss)		742,520
Plus: Income attributable to segment noncontrolling interests		1,660
Plus: Investment income (loss)		(617,977)
Fee related earnings	$	126,203

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13. COMMITMENTS AND CONTINGENCIES

Debt Covenants

Borrowings of KKR contain various debt covenants. These covenants do not, in management s opinion, materially restrict KKR s investment or financing strategies. KKR is in compliance with all of its debt covenants as of March 31, 2012.

Investment Commitments

As of March 31, 2012, KKR had unfunded commitments to its private equity and other investment vehicles of $594.9 million. In addition, KKR s capital markets business had unfunded commitments of $69.9 million related to four Portfolio Companies revolving credit facilities as of March 31, 2012.

Contingent Repayment Guarantees

The instruments governing KKR s private equity funds generally include a clawback provision that, if triggered, may give rise to a contingent obligation that may require the general partners to return amounts to the fund for distribution to the limited partners at the end of the life of the fund. Under a clawback provision, upon the liquidation of a fund, the general partner is required to return, on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled.

Certain KKR principals who received carried interest distributions prior to October 1, 2009 with respect to the private equity funds had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of the private equity funds to repay amounts to fund limited partners pursuant to the general partners clawback obligations. KKR principals remain responsible for any clawback obligations relating to carry distributions received prior to October 1, 2009, up to a maximum of $223.6 million. At March 31, 2012, KKR has recorded a receivable of $47.3 million within due from affiliates for the amount of the clawback obligation required to be funded by KKR principals who do not hold direct controlling economic interests in the KKR Group Partnerships. Carry distributions arising subsequent to October 1, 2009 may give rise to clawback obligations that will be allocated generally to carry pool participants and the KKR Group Partnerships. KKR will indemnify its principals for any personal guarantees that they have provided with respect to such amounts.

As of March 31, 2012, the amount of carried interest that is subject to this clawback provision was $813.5 million, assuming that all applicable private equity funds were liquidated at no value. Had the investments in such funds been liquidated at their March 31, 2012 fair values, the clawback obligation would have been $73.2 million, of which $11.5 million is the obligation of KKR and the remainder is the obligation of affiliates and noncontrolling interest holders.

The instruments governing certain of KKR s private equity funds may also include a net loss sharing provision, that, if triggered, may give rise to a contingent obligation that may require the general partners to contribute capital to the fund, to fund 20% of the net losses on investments. In connection with the net loss sharing provisions, certain of KKR s private equity vehicles allocate a greater share of their investment losses to KKR relative to the amounts contributed by KKR to those vehicles. In these vehicles, such losses would be required to be paid by KKR to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed. Based on the fair market values as of March 31, 2012, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the net loss sharing obligation would have been approximately $1,054.2 million as of March 31, 2012.

Indemnifications

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

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Litigation

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

In August 1999, KKR and certain of its current and former personnel were named as defendants in an action brought in the Circuit Court of Jefferson County, Alabama, or the Alabama State Court, alleging breach of fiduciary duty and conspiracy in connection with the acquisition of Bruno s, Inc. (Bruno s), one of KKR s former portfolio companies, in 1995. The action was removed to the U.S. Bankruptcy Court for the Northern District of Alabama. In April 2000, the complaint in this action was amended to further allege that KKR and others violated state law by fraudulently misrepresenting the financial condition of Bruno s in an August 1995 subordinated notes offering relating to the acquisition and in Bruno s subsequent periodic financial disclosures. In January 2001, the action was transferred to the U.S. District Court for the Northern District of Alabama. In 2009, the action was remanded to the Alabama State Court and subsequently consolidated for pretrial purposes with a similar action brought against the underwriters of the August 1995 subordinated notes offering, which was pending before the Alabama State Court. The plaintiffs are seeking compensatory and punitive damages, in an unspecified amount to be proven at trial, for losses they allegedly suffered in connection with their purchase of the subordinated notes. In September 2009, KKR and the other named defendants moved to dismiss the action. In April 2010, the Alabama State Court granted in part and denied in part the motion to dismiss. In August 2011, the Alabama Supreme Court denied KKR s petition seeking permission to appeal certain rulings made by the Alabama State Court when denying in part the motion to dismiss. In October 2011, the plaintiffs investment adviser filed an amended motion to dismiss a third-party complaint filed by KKR and other defendants asserting a contribution claim against the plaintiffs investment adviser. Briefing on the motion to dismiss this third-party-complaint is ongoing. In December 2011, KKR filed a petition for a writ of certiorari in the United States Supreme Court seeking permission to appeal the Alabama Supreme Court s denial of KKR s petition. In January 2012, the Alabama State Court granted a motion to sever the action from the related action against the underwriters of the subordinated notes. Discovery is ongoing in the action.

On May 23, 2011, KKR, certain KKR affiliates and the board of directors of Primedia Inc. (a former KKR portfolio company whose directors at that time included certain KKR personnel) were named as defendants, along with others, in two shareholder class action complaints filed in the Court of Chancery of the State of Delaware challenging the sale of Primedia in a merger transaction that was completed on July 13, 2011. These actions allege, among other things, that Primedia board members, KKR, and certain KKR affiliates, breached their fiduciary duties by entering into the merger agreement at an unfair price and failing to disclose all material information about the merger. Plaintiffs also allege that the merger price was unfair in light of the value of certain shareholder derivative claims, which were dismissed on August 8, 2011, based on a stipulation by the parties that the derivative plaintiffs and any other former Primedia shareholders lost standing to prosecute the derivative claims on behalf of Primedia when the Primedia merger was completed. The dismissed shareholder derivative claims included allegations concerning open market purchases of certain shares of Primedia s preferred stock by KKR affiliates in 2002 and allegations concerning Primedia s redemption of certain shares of Primedia s preferred stock in 2004 and 2005, some of which were owned by KKR affiliates. With respect to the pending shareholder class actions challenging the Primedia merger, on June 7, 2011, the Court of Chancery denied a motion to preliminarily enjoin the merger. On July 18, 2011, the Court of Chancery consolidated the two pending shareholder class actions and appointed lead counsel for plaintiffs. On October 7, 2011, defendants moved to dismiss the operative complaint in the consolidated shareholder class action. The operative complaint seeks, in relevant part, unspecified monetary damages and rescission of the merger. On December 2, 2011, plaintiffs filed a consolidated amended complaint, which similarly alleges that the Primedia board members, KKR, and certain KKR affiliates breached their respective fiduciary duties by entering into the merger agreement at an unfair price in light of the value of the dismissed shareholder derivative claims. That amended complaint seeks an unspecified amount of monetary damages. On January 31, 2012, defendants moved to dismiss the amended complaint. Briefing on the motion to dismiss the amended complaint is ongoing.

Additionally, in May 2011, two shareholder class actions challenging the Primedia merger were filed in Georgia state courts, asserting similar allegations and seeking similar relief as initially sought by the Delaware shareholder class actions above. Both Georgia actions have been stayed in favor of the Delaware action.

In December 2007, KKR, along with 15 other private equity firms and investment banks, were named as defendants in a purported class action complaint filed in the United States District Court for the District of Massachusetts by shareholders in certain public companies acquired by private equity firms since 2003. In August 2008, KKR, along with 16 other private equity firms and investment banks, were named as defendants in a purported consolidated amended class action complaint. The suit alleges that from mid-2003 defendants have violated antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private

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equity services for leveraged buyouts. The amended complaint seeks injunctive relief on behalf of all persons who sold securities to any of the defendants in leveraged buyout transactions and specifically challenges nine transactions. The first stage of discovery concluded on or about April 15, 2010. On August 18, 2010, the court granted plaintiffs motion to proceed to a second stage of discovery in part and denied it in part. Specifically, the court granted a second stage of discovery as to eight additional transactions but denied a second stage of discovery as to any transactions beyond the additional eight specified transactions. On October 7, 2010, the plaintiffs filed under seal a fourth amended complaint that includes new factual allegations concerning the additional eight transactions and the original nine transactions. The fourth amended complaint also includes eight purported sub-classes of plaintiffs seeking unspecified monetary damages and/or restitution with respect to eight of the original nine challenged transactions and new separate claims against two of the original nine challenged transactions. On January 13, 2011, the court granted a motion filed by KKR and certain other defendants to dismiss all claims alleged by a putative damages sub-class in connection with the acquisition of PanAmSat Corp. and separate claims for relief related to the PanAmSat transaction. The second phase of discovery permitted by the court is completed. On July 11, 2011, plaintiffs filed a motion seeking leave to file a proposed fifth amended complaint that seeks to challenge ten additional transactions in addition to the transactions identified in the previous complaints. Defendants opposed plaintiffs motion. On September 7, 2011, the court granted plaintiffs motion in part and denied it in part. Specifically, the court granted a third stage of limited discovery as to the ten additional transactions identified in plaintiffs proposed fifth amended complaint but denied plaintiffs motion seeking leave to file a proposed fifth amended complaint. The court stated that it will entertain a renewed motion by plaintiffs to file a proposed fifth amended complaint at the close of the third phase of discovery. The third phase of discovery permitted by the court is ongoing.

On March 4, 2011, KKR received a request from the SEC for information relating to the acquisition of Del Monte Foods Company by private equity funds affiliated with KKR and two other private equity firms, which was announced on November 25, 2010 and completed on March 8, 2011. On May 20, 2011 the SEC issued a subpoena to KKR seeking substantially the same documents and information as the March 4, 2011 request for information. On December 16, 2011, the SEC issued another subpoena to KKR seeking documents and information regarding the period prior to the announcement of the acquisition of Del Monte Foods Company. KKR is cooperating with the SEC s investigations.

In September 2006 and March 2009, KKR received requests for certain documents and other information from the Antitrust Division of the U.S. Department of Justice (DOJ) in connection with the DOJ s investigation of private equity firms to determine whether they have engaged in conduct prohibited by United States antitrust laws. KKR is cooperating with the DOJ s investigation.

In January 2011, KKR received a request from the SEC for information regarding KKR s investors and clients that the SEC defines as sovereign wealth funds and certain services provided by KKR. On December 19, 2011, the SEC issued a subpoena to KKR seeking additional documents and information involving certain sovereign wealth funds specified by the SEC. KKR is cooperating with the SEC s investigation.

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

KKR establishes an accrued liability for litigation, regulatory and other matters 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 determination. Such matters are subject to many uncertainties, including among others (i) the proceedings are in early stages; (ii) damages sought are unspecified, unsupportable, unexplained or uncertain; (iii) discovery has not been started or is incomplete; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; or (vi) there are 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. For one or more of the matters described above for which a loss is both probable and reasonably estimable, we have estimated the aggregate amount of losses attributable to KKR to be approximately $32.5 million. We believe such losses should be, in whole or in part, subject to insurance and/or indemnity, which we believe will reduce any ultimate loss. This estimate is based upon information available as of May 2, 2012 and is subject to significant judgment and a variety of assumptions and uncertainties. Actual outcomes may vary significantly from this estimate.

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At this time, management has not concluded whether the final resolution of any of the matters above will have a material effect upon the consolidated financial statements.

14. REGULATED ENTITIES

KKR has a registered broker-dealer which is subject to the minimum net capital requirements of the SEC and the Financial Industry Regulatory Authority (FINRA). Additionally, KKR has an entity based in London which is subject to the capital requirements of the U.K. Financial Services Authority (FSA), another entity based in Hong Kong which is subject to the capital requirements of the Hong Kong Securities and Futures Ordinance, and another entity based in Mumbai which is subject to capital requirements of the Reserve Bank of India (RBI). All of these broker dealer entities have continuously operated in excess of their respective 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 March 31, 2012, approximately $66.0 million of cash at our registered broker-dealer entities may be restricted as to the payment of cash dividends and advances to KKR.

15. SUBSEQUENT EVENTS

A distribution of $0.15 per KKR & Co. L.P. common unit was announced on April 27, 2012 and will be paid on May 21, 2012 to unitholders of record as of the close of business on May 7, 2012. KKR Holdings will receive its pro rata share of the distribution from the KKR Group Partnerships.

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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, 2011, filed with the Securities and Exchange Commission on February 27, 2012, including the audited consolidated and combined 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.

Overview

Led by Henry Kravis and George Roberts, we are a leading global investment firm with $62.3 billion in AUM as of March 31, 2012 and a 36-year history of leadership, innovation and investment excellence. When our founders started our firm in 1976, they established the principles that guide our business approach today, including a patient and disciplined investment process; the alignment of our interests with those of our investors, portfolio companies and other stakeholders; and a focus on attracting world class talent.

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

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

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

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

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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. KKR also manages and sources investments in infrastructure, natural resources and real estate. These investment funds, vehicles and accounts are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC registered investment adviser.

The table below presents information as of March 31, 2012 relating to our private equity funds and other Private Markets investment vehicles for which we have the ability to earn carried interest. This data does not reflect acquisitions or disposals of investments, changes in investment values or distributions occurring after March 31, 2012.

Private Markets	Investment Period Commencement Date	Investment Period End Date	Commitment	Uncalled Commitment	Percentage Committed by General Partner	Amount Invested	Amount Realized	Remaining Cost	Remaining Fair Value
Private Equity Funds									
China Growth Fund	11/2010	11/2016	$ 1,010.0	$ 737.9	1.0%	$ 272.1	$	$ 272.1	$ 366.0
E2 Investors (Annex Fund)	8/2009	11/2012	539.3	385.1	4.2%	154.2		154.2	247.2
European Fund III	3/2008	3/2014	5,950.3	3,263.8	4.6%	2,686.5		2,686.5	2,825.6
Asian Fund	7/2007	7/2013	3,983.2	1,221.6	2.5%	2,761.6	211.1	2,616.2	4,453.7
2006 Fund	9/2006	9/2012	17,642.2	1,459.2	2.1%	16,183.0	4,367.1	13,886.7	16,831.7
European Fund II	11/2005	10/2008	5,750.8		2.1%	5,750.8	1,554.1	4,654.1	4,128.7
Millennium Fund	12/2002	12/2008	6,000.0		2.5%	6,000.0	7,252.5	3,319.5	4,951.1
European Fund	12/1999	12/2005	3,085.4		3.2%	3,085.4	8,325.6	95.2	507.9
Total Private Equity Funds			43,961.2	7,067.6		36,893.6	21,710.4	27,684.5	34,311.9
Co-Investment Vehicles	Various	Various	2,290.8	362.7	Various	1,928.1	723.0	1,730.3	2,579.5
Total Private Equity			**46,252.0**	**7,430.3**		**38,821.7**	**22,433.4**	**29,414.8**	**36,891.4**
Energy & Infrastructure									
Natural Resources	Various	Various	1,094.0	862.2	Various	231.8	14.4	226.9	194.3
Infrastructure	Various	Various	780.8	623.5	6.4%	157.3		157.3	157.6
Co-Investment Vehicles	Various	Various	1,863.3	680.7	Various	1,182.6	87.8	1,182.6	1,315.7
Energy & Infrastructure Total			**3,738.1**	**2,166.4**		**1,571.7**	**102.2**	**1,566.8**	**1,667.6**
Private Markets Total			**49,990.1**	**9,596.7**		**40,393.4**	**22,535.6**	**30,981.6**	**38,559.0**

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The tables below present information as of March 31, 2012 relating to the historical performance of certain of our Private Markets investment vehicles since inception, which we believe illustrates the benefits of our investment approach. The information presented under Total Investments includes all of the investments made by the specified investment vehicle, while the information presented under Realized/Partially Realized Investments includes only those investments for which proceeds, excluding current income like dividends and interest, have been realized. This data does not reflect additional capital raised since March 31, 2012 or acquisitions or disposals of investments, changes in investment values or distributions occurring after that date. Past performance is not a guarantee of future results.

	Amount		Fair Value of Investments					Multiple of
Private Markets Investment Fund	**Commitment**	**Invested**	**Realized**	**Unrealized**	**Total Value**	**Gross IRR***	**Net IRR***	**Invested Capital****
Total Investments								
Legacy Funds (1)								
1976	$ 31.4	$ 31.4	$ 537.2	$	$ 537.2	39.5%	35.5%	17.1
1980	356.8	356.8	1,827.8		1,827.8	29.0%	25.8%	5.1
1982	327.6	327.6	1,290.7		1,290.7	48.1%	39.2%	3.9
1984	1,000.0	1,000.0	5,963.5		5,963.5	34.5%	28.9%	6.0
1986	671.8	671.8	9,080.7		9,080.7	34.4%	28.9%	13.5
1987	6,129.6	6,129.6	14,949.2		14,949.2	12.1%	8.9%	2.4
1993	1,945.7	1,945.7	4,143.3		4,143.3	23.6%	16.8%	2.1
1996	6,011.6	6,011.6	12,476.6		12,476.6	18.0%	13.3%	2.1
Included Funds								
European Fund (1999) (2)	3,085.4	3,085.4	8,325.6	507.9	8,833.5	27.1%	20.4%	2.9
Millennium Fund (2002)	6,000.0	6,000.0	7,252.5	4,951.1	12,203.6	23.2%	16.8%	2.0
European Fund II (2005) (2)	5,750.8	5,750.8	1,554.1	4,128.7	5,682.8	(0.3)%	(1.0)%	1.0
2006 Fund (2006)	17,642.2	16,183.0	4,367.1	16,831.7	21,198.8	8.0%	5.4%	1.3
Asian Fund (2007)	3,983.2	2,761.6	211.1	4,453.7	4,664.8	21.9%	14.4%	1.7
European Fund III (2008) (2)	5,950.3	2,686.5		2,825.6	2,825.6	2.8%	(3.4)%	1.1
E2 Investors (Annex Fund) (2009) (2)(3)	539.3	154.2		247.2	247.2	N/A	N/A	N/A
China Growth Fund (2010) (3)	1,010.0	272.1		366.0	366.0	N/A	N/A	N/A
Natural Resources (2010) (3)	1,094.0	231.8	14.4	194.3	208.7	N/A	N/A	N/A
Infrastructure (2010) (3)	780.8	157.3		157.6	157.6	N/A	N/A	N/A
All Funds	**$ 62,310.5**	**$ 53,757.2**	**$ 71,993.8**	**$ 34,663.8**	**$ 106,657.6**	**25.7%**	**19.0%**	**2.0**
Realized/Partially Realized Investments (4)								
Legacy Funds (1)								
1976	$ 31.4	$ 31.4	$ 537.2	$	$ 537.2	39.5%	35.5%	17.1
1980	356.8	356.8	1,827.8		1,827.8	29.0%	25.8%	5.1
1982	327.6	327.6	1,290.7		1,290.7	48.1%	39.2%	3.9
1984	1,000.0	1,000.0	5,963.5		5,963.5	34.6%	28.9%	6.0
1986	671.8	671.8	9,080.7		9,080.7	34.4%	28.9%	13.5
1987	6,129.6	6,129.6	14,949.2		14,949.2	12.1%	8.9%	2.4
1993	1,945.7	1,945.7	4,143.3		4,143.3	23.6%	16.8%	2.1
1996	6,011.6	5,968.5	12,476.6		12,476.6	18.2%	14.8%	2.1
Included Funds								
European Fund (1999) (2)	3,085.4	2,681.1	8,325.6	507.9	8,833.5	29.9%	26.1%	3.3
Millennium Fund (2002)	6,000.0	3,542.5	6,933.9	2,156.3	9,090.2	42.7%	32.8%	2.6
European Fund II (2005) (2)	5,750.8	1,567.4	1,415.9	1,523.0	2,938.9	14.7%	12.9%	1.9
2006 Fund (2006)	17,642.2	2,195.9	4,356.8	4,293.7	8,650.5	38.4%	34.5%	3.9
Asian Fund (2007)	3,983.2	411.7	211.1	664.4	875.5	27.1%	23.2%	2.1
European Fund III (2008) (2)	5,950.3							
	539.3							

E2 Investors (Annex Fund) (2009) (2)(3)													
China Growth Fund (2010) (3)		1,010.0											
Natural Resources (2010) (3)		1,094.0											
Infrastructure (2010) (3)		780.8											
All Realized/Partially Realized Investments	**$**	**62,310.5**	**$**	**26,830.0**	**$**	**71,512.3**	**$**	**9,145.3**	**$**	**80,657.6**	**26.2%**	**21.4%**	**3.0**

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(1) These funds are not included in the KKR business.

(2) The capital commitments of the European Fund, the European Fund II, the European Fund III and the Annex Fund include euro-denominated commitments of 196.5 million, 2,597.2 million, 2,788.8 million and 165.5 million, respectively. Such amounts have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate prevailing on March 31, 2012 in the case of unfunded commitments.

(3) The gross IRR, net IRR and multiple of invested capital are calculated for our investment funds that have invested for at least 36 months prior to March 31, 2012. None of the Annex Fund, the China Growth Fund, Natural Resources, or Infrastructure have invested for at least 36 months as of March 31, 2012. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to those funds.

(4) Investments are considered partially realized when proceeds, excluding current income like dividends and interest, have been realized. None of the European Fund III, Annex Fund, China Growth Fund, Natural Resources or Infrastructure have realized proceeds from invested capital. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to the investments of those funds.

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

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

Public Markets

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

We generally review our performance in the Public Markets segment by investment strategy. Our leveraged credit strategies invest in leveraged loans and high yield bonds, or a combination of both. In certain cases these strategies have meaningful track records and may be compared to widely-known indices. The following chart presents information regarding these leveraged loan and high yield bond strategies from inception to March 31, 2012. Our other credit and equity strategies do not have a comparable widely-known index or have only begun investing more recently and therefore have not developed meaningful track records and thus their performance is not included below. Past performance is no guarantee of future results.

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Inception-to-Date Annualized Gross Performance vs. Benchmark(1) by Strategy

(1) The Benchmarks referred to herein include the S&P/LSTA Leveraged Loan Index (the S&P/LSTA Loan Index) and the Bank of America Merrill Lynch High Yield Master II Index (the BoAML HY Master II Index and, together with the S&P/LSTA Loan Index, the Indices). The S&P/LSTA Loan Index is an index that comprises all loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: (i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; (ii) secured; (iii) U.S. dollar denominated; (iv) minimum term of one year at inception; and (v) minimum initial spread of LIBOR plus 1.25%. The BoAML HY Master II Index is a market value weighted index of below investment grade U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market. Yankee bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the BoAML HY Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US$100 million. In addition, issues having a credit rating lower than BBB3, but not in default, are also included. The indices do not reflect the reinvestment of income or dividends and the indices are not subject to management fees, incentive allocations or expenses. It is not possible to invest directly in unmanaged indices.

(2) The Secured Credit Unlevered model performance track record is presented as supplemental information. The Secured Credit Unlevered model represents performance of KKR s Secured Credit Levered composite calculated on an unlevered basis. KKR s Secured Credit Levered composite has an investment objective that allows it to invest in assets other than senior secured term loans and high yield securities, which includes asset backed securities, commercial mortgage backed securities, preferred stock, public equity, private equity and certain freestanding derivatives. In addition, KKR s Secured Credit Levered composite has employed leverage in its respective portfolios as part of its investment strategy. Gains realized with borrowed funds may cause returns to increase at a faster rate than would be the case without borrowings. If, however, investment results fail to cover the principal, interest and other costs of borrowings, returns could also decrease faster than if there had been no borrowings. Accordingly, the

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unlevered returns contained herein do not reflect the actual returns, and are not intended to be indicative of the future results of KKR s Secured Credit Levered composite. It is not expected that KKR s Secured Credit Levered composite will achieve comparable results. The Benchmark used for purposes of comparison for the Secured Credit strategy presented herein is the S&P/LSTA Loan Index. There are differences, in some cases, significant differences, between KKR s investments and the investments included in the Indices. For instance, KKR s composite may invest in securities that have a greater degree of risk and volatility, as well as liquidity risk, than those securities contained in the Indices.

(3) Performance is based on a blended composite of Bank Loans Plus High Yield strategy accounts. The Benchmark used for purposes of comparison for the Bank Loans Plus High Yield strategy is based on 65% S&P/LSTA Loan Index and 35% ML HY Master II Index.

(4) The Benchmark used for purposes of comparison for the High Yield carve-out strategy presented herein is based on the Bank of America Merrill Lynch High Yield Master II Index. The High Yield carve-out is comprised of all investments included in KKR-sponsored portfolios that have been identified as below investment grade or were rated BB or lower at time of issuance by Standard & Poor s. The collection of investments included in the High Yield carve-out come from various investment funds, vehicles and accounts sponsored by KKR.

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The table below presents information as of March 31, 2012 relating to our Public Markets investment vehicles.

($ in millions)	AUM	FPAUM	Typical Mgmt Fee Rate	Incentive Fee / Carried Interest	Preferred Return/Hurdle Rate	Duration of Capital
KFN	$ 1,613	$ 1,613	1.75%	25.00%	8.00%	Permanent (1)
Leveraged Credit:						
Leveraged Credit SMAs/Funds	2,982	2,982	0.50-1.00%	N/A	N/A	Subject to Redemptions
CLO s	7,607	917	0.50%	N/A	N/A	10-14 Years (3)
Total Leveraged Credit	10,589	3,899				
Alternative Credit (2)	3,274	3,007	0.75-1.50%(4)	10.00-20.00%	8.00-12.00%	8-15 Years (3)
Long/Short Equities	371	274	1.25%-1.50%	17.50-20.00%	N/A	Subject to Redemptions
Other:						
Corporate Capital Trust (5)	245	245	1.00%	10.0%	7.00%	7 years
Strategic Capital Funds (SCF) (6)	214	214	0.25%	N/A	N/A	In managed wind down
Total Other	459	459				
Total	**$ 16,306**	**$ 9,252**				

(1) The management agreement may be terminated only in limited circumstances and, except for a termination arising from certain events of cause, upon payment of a termination fee to KKR.

(2) AUM and FPAUM include all assets invested by vehicles that principally invest in alternative credit strategies and consequently may include a certain amount of assets invested in other strategies.

(3) Term for duration of capital is since inception. Inception dates for CLOs were between 2005 and 2007 and for separately managed accounts and funds investing in alternative credit strategies from 2009 through 2011.

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

(5) Corporate Capital Trust is a business development company sub-advised by KAM. By December 31, 2018, the capital in the Corporate Capital Trust vehicle may become permanent.

(6) Strategic Capital Funds is a fixed income hedge fund managed by KAM. We do not earn an incentive fee or carried interest on the assets managed through Strategic Capital Funds, which are currently in managed wind down.

Capital Markets and Principal Activities

Our Capital Markets and Principal Activities segment combines our principal assets with our global capital markets business. Our capital markets business supports our firm, our portfolio companies and select third parties by providing tailored capital markets advice and by developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing. Our capital markets services include arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets services. Our principal asset base primarily includes investments in our private equity funds, co-investments in certain portfolio companies of such private equity funds, general partner interests in various KKR-sponsored investment funds, and other assets owned by the firm s balance sheet.

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Business Environment

As a global investment firm, we are affected by financial and economic conditions in North America, Europe, Asia and elsewhere in the world. At the moment, the current global economic environment remains somewhat unbalanced. China, for example, currently accounts for approximately one third of global economic growth. All told, Asia is now driving a substantial portion of total global economic growth. Changes in inflation and monetary policy often can have a significant effect on the rate of growth in the emerging markets. At the same time, Europe continues to experience downward growth trends as sovereign debt concerns have affected consumer and business behavior. Ongoing austerity and deleveraging in the developed world are likely to persist in the near-term, which may lead to increased volatility in the global capital markets. In addition, we have seen a decline in transaction volume, which in turn tends to result in a reduced amount of fees received in our business segments.

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

Global equity markets improved during the three months ended March 31, 2012. Volatility has settled somewhat during the first quarter, as the Chicago Board Options Exchange Market Volatility Index, or the VIX, a measure of volatility, started at 23.4 at the beginning of the quarter and ended at 15.5 at March 31, 2012. Overall equity markets have increased during the first quarter of 2012 with the S&P 500 Index posting a 12.6% gain and the MSCI World Index posting an increase of 11.7%. The below-investment grade credit markets also appreciated with the S&P/LSTA Leveraged Loan Index and the BofA Merrill Lynch High Yield Master II Index increasing 3.8% and 5.1% during the three months ended March 31, 2012, respectively.

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

Our Public Markets segment manages a number of funds and other accounts that invest capital in a variety of credit and equity strategies, including leveraged loans, high yield bonds and mezzanine debt. As a result, conditions in global credit and

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equity markets have a direct impact on both the performance of these investments as well as the ability to make additional investments on favorable terms in the future.

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

Finally, conditions in commodity markets may impact the performance of our portfolio companies in a variety of ways, including through direct or indirect impact on the cost of the inputs used in their operations as well as the pricing and profitability of the products or services that they sell. The price of commodities has historically been subject to substantial volatility and certain commodity prices have risen considerably, driven by growing demand from emerging markets and increased central bank liquidity in the system. If certain of our portfolio companies are unable to raise prices to offset increases in the cost of raw materials or other inputs, or if consumers defer purchases of or seek substitutes for the products of such portfolio companies, such portfolio companies could experience lower operating income which may in turn reduce the valuation of those portfolio companies. However, the results of operations and valuations of certain of our other portfolio companies, for example those involved in the development of oil and natural gas properties, may benefit from an increase in commodity prices.

Basis of Financial Presentation

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

In accordance with accounting principles generally accepted in the United States of America, or GAAP, certain entities, including a substantial number of our funds, are consolidated notwithstanding the fact that we may hold only a minority economic interest or non-economic variable interest in those entities. In particular, the majority of our consolidated funds consist of funds in which we hold a general partner or managing member interest that gives us substantive controlling rights over such funds. With respect to our consolidated funds, we generally have operational discretion and control over the funds and investors do not hold any substantive rights that would enable them to impact the funds ongoing governance and operating activities. As of March 31, 2012 our Private Markets segment included ten consolidated investment funds and thirteen unconsolidated co-investment vehicles. Our Public Markets segment included eight consolidated investment vehicles and nine unconsolidated vehicles.

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

Key Financial Measures

Fees

Fees consist primarily of (i) monitoring, consulting and transaction fees from providing advisory and other services, (ii) management and incentive fees from providing investment management services to unconsolidated funds, a specialty

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finance company, structured finance vehicles, and separately managed accounts, and (iii) fees from capital markets activities. These fees are based on the contractual terms of the governing agreements. A substantial portion of monitoring and transaction fees earned in connection with managing portfolio companies are shared with fund investors.

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

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

Expenses

Compensation and Benefits

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

All KKR principals and other employees of certain consolidated entities receive a base salary that is paid by KKR or its consolidated entities, and is accounted for as Compensation and Benefits expense. These employees are also eligible to receive discretionary cash bonuses based on performance, overall profitability and other matters. While cash bonuses paid to most employees are funded by KKR and certain consolidated entities and result in customary Compensation and Benefits expense, cash bonuses that are paid to certain of KKR s most senior employees are funded by KKR Holdings with distributions that it receives on its KKR Group Partnership Units. To the extent that distributions received by these individuals exceed the amounts that they are otherwise entitled to through their vested units in KKR Holdings, this excess is funded by KKR Holdings and reflected in Compensation and Benefits in the consolidated statements of operations.

General, Administrative and Other

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

Investment Income (Loss)

Net Gains (Losses) from Investment Activities

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

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Dividend Income

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

Interest Income

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

Interest Expense

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

Income Taxes

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

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

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

Net Income (Loss) Attributable to Noncontrolling Interests

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

Segment Operating and Performance Measures

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

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

Fee Related Earnings (FRE)

Fee related earnings is comprised of segment operating revenues less segment operating expenses and is used by management as an alternative measurement of the operating earnings of KKR and its business segments before investment income. We believe this measure is useful to investors as it provides additional insight into the operating profitability of our fee generating management companies and capital markets businesses. The components of FRE on a segment basis differ from the equivalent GAAP amounts on a consolidated basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity charges and other non-cash compensation charges borne by KKR Holdings or incurred under the KKR & Co. L.P. 2010 Equity Incentive Plan; (vi) the exclusion of certain reimbursable expenses; and (vii) the exclusion of certain non-recurring items.

Economic Net Income (Loss) (ENI)

Economic net income (loss) is a measure of profitability for KKR s reportable segments and is used by management as an alternative measurement of the operating and investment earnings of KKR and its business segments. We believe this measure is useful to investors as it provides additional insight into the overall profitability of KKR s businesses inclusive of investment income and carried interest. ENI is comprised of: (i) FRE; plus (ii) segment investment income (loss), which is reduced for carry pool allocations and management fee refunds; less (iii) certain economic interests in KKR s segments held by third parties. ENI differs from net income (loss) on a GAAP basis as a result of: (i) the exclusion of the items referred to in FRE above; (ii) the exclusion of investment income (loss) relating to noncontrolling interests; and (iii) the exclusion of income taxes.

Assets Under Management (AUM)

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

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Fee Paying AUM (FPAUM   )

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

Committed Dollars Invested

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

Syndicated Capital

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

Uncalled Commitments

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

Adjusted Units

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

Book Value

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

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amounts on a consolidated basis primarily as a result of the exclusion of ownership interests in consolidated investment vehicles and other entities that are attributable to noncontrolling interests.

Cash and Short-Term Investments

Cash and short-term investments represent cash and liquid short-term investments in high-grade, short-duration cash management strategies used by KKR to generate additional yield on our excess liquidity and is used by management in evaluating KKR s liquidity position. We believe this measure is useful to investors as it provides additional insight into KKR s available liquidity. Cash and short-term investments differ from cash and cash equivalents on a GAAP basis as a result of the inclusion of liquid short-term investments in cash and short-term investments. The impact that these liquid short-term investments have on cash and cash equivalents on a GAAP basis is reflected in the consolidated and combined statements of cash flows within cash flows from operating activities. Accordingly, the exclusion of these investments from cash and cash equivalents on a GAAP basis has no impact on cash provided (used) by operating activities, investing activities or financing activities. As of March 31, 2012, we had cash and short-term investments on a segment basis of $855.5 million, which, with the addition of $244.3 million of liquid short-term investments, may be reconciled to cash and cash equivalents of $611.2 million.

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Consolidated and Combined Results of Operations

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

The following tables set forth information regarding our results of operations for the three months ended March 31, 2012 and 2011.

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	($ in thousands)	
Revenues		
Fees	$ 116,307	$ 231,843
Expenses		
Compensation and Benefits	372,410	356,554
Occupancy and Related Charges	15,197	12,554
General, Administrative and Other	57,651	54,644
Total Expenses	445,258	423,752
Investment Income (Loss)		
Net Gains (Losses) From Investment Activities	3,086,865	2,487,209
Dividend Income	172,939	4,808
Interest Income	76,199	65,368
Interest Expense	(18,005)	(17,252)
Total Investment Income (Loss)	3,317,998	2,540,133
Income (Loss) Before Taxes	2,989,047	2,348,224
Income Taxes	17,072	