KKR & Co. (Guernsey) L.P.

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

Interim Financial Report (Unaudited)

AS OF AND FOR THE QUARTER ENDED SEPTEMBER 30, 2009

TABLE OF CONTENTS

	Page
Naming Conventions	2
About KKR Guernsey	3
Business Combination	3
About KKR	3
KKR's Reportable Segments Selected Financial Data (Unaudited) for the Quarters and Nine Months Ended September 30, 2009 and September 30, 2008	6
KKR's Private Equity Investments (Unaudited) as of September 30, 2009	8
KKR's Business Segments	9
KKR Segment Review	9
Organizational Structure	11
The Reorganization Transactions	12
KKR Group Partnership Units	12
KKR Holdings	12
Components of KKR's Business Owned by the KKR Group Partnerships	12
Future Liquidity Needs and Sources of Cash	13
Common Units	16
Common Units on the Euronext Amsterdam	16
Ownership and Transfer Restrictions	16
Governance	17
Distribution Policy	17
Operating and Liquidity Overview	19
Operating Results of KKR Guernsey for the Quarters and Nine Months Ended September 30, 2009 and September 30, 2008	20
Consolidated Operating Results of the KPE Investment Partnership for the Quarters and Nine Months Ended September 30, 2009 and September 30, 2008	23
Liquidity and Capital Resources for the Quarters and Nine Months Ended September 30, 2009 and September 30, 2008	27
Notice to Investors	28
Cautionary Note Regarding Forward-Looking Statements and Certain Risks	28
Directors, Advisors and Contact Information	30
Statements of Responsibility	31
Unaudited Financial Statements and Related Notes of KKR & Co. (Guernsey) L.P.	F-1
Unaudited Consolidated Financial Statements and Related Notes of KKR PEI Investments, L.P. and Subsidiaries	F-19

NAMING CONVENTIONS

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

- **"we," "us," "our," "KKR Guernsey," "KPE" and "our partnership"** are to KKR & Co. (Guernsey) L.P. (formerly known as KKR Private Equity Investors, L.P.), a Guernsey limited partnership, with Registration Number 603;

- our **"Managing Partner"** is to KKR Guernsey GP Limited, a Guernsey limited company with Registration Number 44666, which serves as our general partner;

- the **"KPE Investment Partnership"** is to KKR PEI Investments, L.P., a Guernsey limited partnership with Registration Number 602, and, as applicable, its subsidiaries;

- the **"Associate Investor"** is to KKR PEI Associates, L.P., a Guernsey limited partnership with Registration Number 601, which serves as the general partner of the KPE Investment Partnership;

- the **"Managing Investor"** is to KKR PEI GP Limited, a Guernsey limited company with Registration Number 44667, which serves as the general partner of the Associate Investor;

- **"KKR"** is to KKR & Co. L.P., a Delaware limited partnership, and its affiliates, including Kohlberg Kravis Roberts & Co. L.P., as reorganized pursuant to the Business Combination. The financial information for KKR prior to October 1, 2009 is based on a group, for accounting purposes, of certain consolidated and combined entities under the common control of KKR's senior principals, and under the common ownership of KKR's principals and certain other individuals who have been involved in KKR's business;

- **"Business Combination"** refers to the combination of the businesses of KKR and KPE pursuant to the Amended and Restated Purchase and Sale Agreement, dated as of July 19, 2009, by and among KKR, KPE and certain of their affiliates;

- **"Combined Business"** refers to the combined business of KKR and KKR Guernsey effective as of October 1, 2009 pursuant to the Business Combination;

- **"Group Holdings"** is to KKR Group Holdings L.P., a Cayman limited partnership through which KKR Guernsey owns its interest in the Combined Business;

- **"KKR Group Partnerships"** are KKR Management Holdings L.P., a Delaware limited partnership, and KKR Fund Holdings L.P., a Cayman limited partnership, which together own the Combined Business;

- **"KKR Group Partnership Unit"** refers to a Class A partner interest in each of the KKR Group Partnerships;

- **"KKR Holdings"** is to KKR Holdings L.P., a Cayman limited partnership, which owns all of the outstanding KKR Group Partnership Units that KKR Guernsey does not own through Group Holdings. KKR's principals are the owners of KKR Holdings; and

- **"KKR Managing Partner"** is KKR Management LLC, a Delaware limited liability company, which serves as the general partner of KKR & Co. L.P.

ABOUT KKR GUERNSEY

KKR Guernsey is a Guernsey limited partnership representing a 30% economic interest in KKR's business as of October 1, 2009. KKR Guernsey's general partner is governed by a board of directors, consisting of a majority of independent directors, and its sole investment is the limited partner interests of Group Holdings.

Prior to the Business Combination, KKR Guernsey, which was formerly known as KKR Private Equity Investors, L.P., made all of its investments through the KPE Investment Partnership (a lower tier partnership). As of September 30, 2009, affiliates of KKR had invested $69.4 million in common units of KKR Guernsey and $10.0 million with respect to general partner interests in the KPE Investment Partnership. KKR Guernsey had 204,902,226 common units outstanding with a closing market price of $9.35 as of September 30, 2009.

See "Operating and Liquidity Overview," included elsewhere in this financial report for a discussion of KKR Guernsey's unaudited operating results and the unaudited consolidated operating results of the KPE Investment Partnership as of and for the quarter and nine months ended September 30, 2009 and September 30, 2008.

BUSINESS COMBINATION

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

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

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

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

While KKR Guernsey has retained its listing on Euronext Amsterdam following completion of the Business Combination, KKR has the ability to seek a U.S. listing of the Combined Business in the future on the New York Stock Exchange or NASDAQ. If KKR does not seek a U.S. listing of the Combined Business during the 12–month period following August 4, 2009, the date on which the conditions precedent to the Business Combination were satisfied, KKR Guernsey has the right to cause the Combined Business to seek a U.S. listing after that time.

About KKR

Led by Henry Kravis and George Roberts, KKR is a global alternative asset manager with $54.8 billion in assets under management ("AUM") as of September 30, 2009 and a 33-year history of leadership, innovation and investment excellence. When KKR's founders started the firm in 1976, they established the principles that guide KKR's business approach today, including a patient and disciplined investment process; the alignment of KKR's interests with those of its investors, portfolio companies and other stakeholders; and a focus on attracting world-class talent.

KKR's franchise offers a broad range of asset management services to public and private market investors and provides capital markets solutions for the firm, its portfolio companies and clients. Throughout its history, KKR has consistently been a leader in the private equity industry, having completed more than 170 private equity investments with a total transaction value in excess of $425.0 billion. In recent years, KKR has grown its business by expanding its geographical presence, building businesses in new areas, such as credit and infrastructure, that complement its private equity expertise and strengthening its investor interaction and capital markets activities. With over 600 people across the globe, KKR believes it has a preeminent global platform for sourcing and making investments in multiple asset classes and throughout a company's capital structure.

KKR conducts its business through offices in New York, Menlo Park, San Francisco, Houston, Washington, D.C., London, Paris, Hong Kong, Tokyo, Beijing, Mumbai, Dubai and Sydney, which provide a global platform for sourcing transactions, raising capital and carrying out capital markets activities. KKR has grown its AUM significantly, from $15.1 billion as of December 31, 2004 to $54.8 billion as of September 30, 2009, representing a compounded annual growth rate of 31.1%. KKR's growth has been driven by value that it has created through its operationally focused investment approach, expansion into new lines of business, innovation in the products that it offers investors, an increased focus on providing tailored solutions to its clients, and the integration of capital markets distribution activities. KKR's relationships with investors have provided the firm with a stable source of capital for investments, and KKR anticipates that these relationships will continue to do so.

KKR's reportable segments selected financial data on the following pages is historical financial information for the periods presented and does not include any pro forma adjustments relating to the Business Combination and does not represent the economic interest owned by KKR Guernsey following the Business Combination. The historical financial information presented does not include all adjustments necessary for a presentation of the combined financial results of KKR in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The financial information for KKR prior to October 1, 2009 is based on a group, for accounting purposes, of certain consolidated and combined entities under the common control of KKR's senior principals, and under the common ownership of KKR's principals and certain other individuals who have been involved in KKR's business. See "Business Combination – KKR's Business Segments" for a description of the private and public markets segments, as well as a description of a new segment formed in connection with the Business Combination called capital markets and principal activities.

Key performance measures used by KKR in evaluating its reportable business segments are summarized below. These measures are used by management for KKR's segments in making resource deployment and other operational decisions.

- **Fee related earnings ("FRE")** is comprised of segment operating revenues, less segment operating expenses. The components of FRE on a segment basis differ from the equivalent U.S. GAAP amounts on a combined basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of expenses of consolidated funds and charges relating to the amortization of intangible assets; and (iii) the exclusion of certain non-recurring charges.

- **Economic net income ("ENI")** is a measure of profitability for KKR's reportable segments and is comprised of FRE plus segment investment income, less economic interests in KKR's segments held by third parties. ENI is calculated before the impact of income taxes. ENI differs from net income attributable to KKR on a U.S. GAAP combined basis as a result of (i) the exclusion of charges relating to the amortization of intangible assets; (ii) the exclusion of income taxes; and (iii) the exclusion of certain non-recurring charges.

- **Assets under management ("AUM")** represents the assets to which KKR is entitled to receive fee income, carried interest or capital appreciation. KKR calculates the amount of AUM as of any date as the sum of: (i) the fair value of the investments of its traditional private equity 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 KKR's principal investments and certain of its fixed income products; and (iv) the value of outstanding structured finance vehicles. Note that KKR's calculation of AUM may differ from the calculations of other asset managers and, as a result, KKR's measurements of its AUM may not be comparable to similar measures presented by other asset managers. KKR's definition of AUM is not based on any definition of AUM that is set forth in the agreements governing the investment funds that KKR manages.

- **Fee paying AUM ("FPAUM")** represents only those assets to which KKR receives fee income. 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 to which KKR does not receive a fee are excluded (i.e., those on which KKR receives only carried interest or capital appreciation) and (ii) certain of KKR's fees, primarily in their private equity funds, are based on capital commitments and invested capital which excludes the impact of mark-to-market adjustments. Accordingly, certain management fees are not dependent on the fair value of certain KKR investments.

- **Private equity dollars invested** is the aggregate amount of capital invested by KKR's private equity funds and carry-yielding co-investment vehicles in private equity transactions during a given period. Such amounts include: (i) capital invested by fund investors and co-investors with respect to which KKR is entitled to a carried interest and (ii) capital invested by KKR as the general partner of a private equity fund with respect to which it is entitled to capital appreciation on the invested capital.

- **Uncalled private equity commitments** represent unfunded capital commitments by partners of KKR's traditional private equity funds and carry-yielding co-investment vehicles to contribute capital to make investments in portfolio companies. Such amounts do not include capital of KKR's principal investments or KKR's fixed income funds that may be used to make private equity investments that are outside of KKR's traditional private equity funds.

KKR

REPORTABLE SEGMENTS SELECTED FINANCIAL DATA (UNAUDITED)
(Amounts in thousands)

	Quarter Ended					
	September 30, 2009			September 30, 2008		
	Private Markets	Public Markets	Total	Private Markets	Public Markets	Total
Fee Income:						
Management and incentive fees:						
Management fees[1]	$ 105,733	$ 14,569	$ 120,302	$ 148,746	$ 16,506	$ 165,252
Incentive fees	—	4,472	4,472	—	—	—
	105,733	19,041	124,774	148,746	16,506	165,252
Net monitoring and transaction fees:						
Monitoring fees	52,943	—	52,943	30,636	3,245	33,881
Transaction fees	37,419	—	37,419	8,092	—	8,092
Fee credits[2]	(37,124)	—	(37,124)	(8,489)	—	(8,489)
	53,238	—	53,238	30,239	3,245	33,484
Fee income	158,971	19,041	178,012	178,985	19,751	198,736
Expenses:						
Employee compensation and benefits	48,324	10,278	58,602	35,869	1,511	37,380
Other operating expenses[3]	53,106	4,795	57,901	50,014	5,150	55,164
Total expenses	101,430	15,073	116,503	85,883	6,661	92,544
Fee related earnings	57,541	3,968	61,509	93,102	13,090	106,192
Investment income (loss)	595,056	129	595,185	(571,876)	(34)	(571,910)
Income (loss) before non-controlling interests in income of consolidated entities	652,597	4,097	656,694	(478,774)	13,056	(465,718)
Income (loss) attributable to non-controlling interests	123	—	123	(69)	—	(69)
Economic net income (loss)	$ 652,474	$ 4,097	$ 656,571	$ (478,705)	$ 13,056	$ (465,649)
Assets under management	$ 41,732,800	$ 13,051,300	$ 54,784,100	$ 43,509,300	$ 14,500,300	$ 58,009,600
Fee paying assets under management	$ 40,773,000	$ 5,957,100	$ 46,730,100	$ 40,648,000	$ 5,500,300	$ 46,148,300
Private equity dollars invested	$ 1,070,100	$ —	$ 1,070,100	$ 326,600	$ —	$ 326,600
Uncalled private equity commitments	$ 14,244,300	$ —	$ 14,244,300	$ 15,264,728	$ —	$ 15,264,728

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1 KKR's traditional private equity funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, a liability to the funds' limited partners is recorded and fee income is reduced for the amount of the carried interest recognized, not to exceed 20% of management fees earned ("Management Fee Refunds"). As of September 30, 2009, the amount subject to Management Fee Refunds for which no liability has been recorded totaled $156.5 million.

2 KKR's agreements with the limited partners of its traditional private equity funds require KKR to share a portion of any transaction and monitoring fees received from portfolio companies with such limited partners ("Fee Credits"). Fee Credits exclude fees that are not attributable to a fund's investment in a portfolio company and generally amount to 80% of gross transaction and monitoring fees after fund related expenses are recovered.

3 During the quarter and nine months ended September 30, 2009, KKR's private markets other operating expenses excluded $34.8 million incurred in connection with the Business Combination. KKR has excluded this charge from its segment financial information as such amount will be not be considered when assessing the performance of, or allocating resources to, each of its business segments and is non-recurring in nature. On a KKR combined basis, this charge is included in general, administrative and other expenses.

KKR

REPORTABLE SEGMENTS SELECTED FINANCIAL DATA (UNAUDITED)
(Amounts in thousands)

	Nine Months Ended					
	September 30, 2009			September 30, 2008		
	Private Markets	Public Markets	Total	Private Markets	Public Markets	Total
Fee Income:						
Management and incentive fees:						
Management fees[1]	$ 315,986	$ 38,579	$ 354,565	$ 327,431	$ 49,756	$ 377,187
Incentive fees	—	4,472	4,472	—	—	—
	315,986	43,051	359,037	327,431	49,756	377,187
Net monitoring and transaction fees:						
Monitoring fees	102,072	—	102,072	83,564	10,853	94,417
Transaction fees	51,986	—	51,986	37,903	—	37,903
Fee credits[2]	(47,640)	—	(47,640)	(13,215)	—	(13,215)
	106,418	—	106,418	108,252	10,853	119,105
Fee income	422,404	43,051	465,455	435,683	60,609	496,292
Expenses:						
Employee compensation and benefits	128,230	23,821	152,051	118,388	10,696	129,084
Other operating expenses[3]	138,371	15,518	153,889	151,380	15,489	166,869
Total expenses	266,601	39,339	305,940	269,768	26,185	295,953
Fee related earnings	155,803	3,712	159,515	165,915	34,424	200,339
Investment income (loss)	811,836	117	811,953	(656,584)	(95)	(656,679)
Income (loss) before non-controlling interests in income of consolidated entities	967,639	3,829	971,468	(490,669)	34,329	(456,340)
Income (loss) attributable to non-controlling interests	70	—	70	(2)	6,421	6,419
Economic net income (loss)	$ 967,569	$ 3,829	$ 971,398	$ (490,667)	$ 27,908	$ (462,759)
Assets under management	$ 41,732,800	$ 13,051,300	$ 54,784,100	$ 43,509,300	$ 14,500,300	$ 58,009,600
Fee paying assets under management	$ 40,773,000	$ 5,957,100	$ 46,730,100	$ 40,648,000	$ 5,500,300	$ 46,148,300
Private equity dollars invested	$ 1,651,000	$ —	$ 1,651,000	$ 2,890,800	$ —	$ 2,890,800
Uncalled private equity commitments	$ 14,244,300	$ —	$ 14,244,300	$ 15,264,728	$ —	$ 15,264,728

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[1] KKR's traditional private equity funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, a liability to the funds' limited partners is recorded and fee income is reduced for the amount of the carried interest recognized, not to exceed 20% of management fees earned ("Management Fee Refunds"). As of September 30, 2009, the amount subject to Management Fee Refunds for which no liability has been recorded totaled $156.5 million.

[2] KKR's agreements with the limited partners of its traditional private equity funds require KKR to share a portion of any transaction and monitoring fees received from portfolio companies with such limited partners ("Fee Credits"). Fee Credits exclude fees that are not attributable to a fund's investment in a portfolio company and generally amount to 80% of gross transaction and monitoring fees after fund related expenses are recovered.

[3] During the quarter and nine months ended September 30, 2009, KKR's private markets other operating expenses exclude $34.8 million incurred in connection with the Business Combination. KKR has excluded this charge from its segment financial information as such amount will be not be considered when assessing the performance of, or allocating resources to, each of its business segments and is non-recurring in nature. On a KKR combined basis, this charge is included in general, administrative and other expenses.

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PRIVATE EQUITY INVESTMENTS (UNAUDITED)
As of September 30, 2009
(Amounts in millions, except percentages)

	Investment Period		Amount						
Private Equity Funds & Co-Investors	**Commencement Date**	**End Date**	**Commitment**	**Percentage Committed by General Partner**	**Invested**	**Uncalled Private Equity Commitments**	**Realized**	**Remaining Cost**	**Fair Value**
KKR E2 Investors (Annex Fund) (2009)	8/2009	11/2011	$ 538.4	4.2%	$ —	$ 538.4	$ —	$ —	$ —
European Fund III (2008)	3/2008	3/2014	6,300.3	4.3%	266.9	6,033.4	—	266.9	194.8
Asian Fund (2007)	7/2007	7/2013	4,000.0	2.5%	1,600.9	2,399.1	—	1,600.9	1,566.4
2006 Fund	9/2006	9/2012	17,642.1	2.1%	12,643.2	4,998.9	87.5	12,555.7	11,158.4
European Fund II (2005)	11/2005	10/2008	5,750.8	2.1%	5,750.8	—	606.1	5,491.3	3,013.1
Millennium Fund (2002)	12/2002	12/2008	6,000.0	2.5%	6,000.0	—	5,071.5	4,836.8	4,959.0
European Fund (1999)	12/1999	12/2005	3,085.4	3.2%	3,085.4	—	5,701.2	917.3	2,202.9
			43,317.0		29,347.2	13,969.8	11,466.3	25,668.9	23,094.6
Co-Investment Vehicles	Various	Various	1,662.7		1,388.2	274.5	31.0	1,388.2	1,499.8
Total			$ 44,979.7		$ 30,735.4	$ 14,244.3	$ 11,497.3	$ 27,057.1	$ 24,594.4

Commencement Date. The commencement date represents the date on which the general partner of the applicable fund commenced investment of the fund's capital.

End Date. The end date represents the earlier of the date on which the general partner of the applicable fund was or will be required by the fund's governing agreement to cease making investments on behalf of the fund, unless extended by a vote of the fund investors, or the date on which the last investment was made.

Commitment. The amount committed represents the aggregate capital commitments to the fund, including capital commitments by third-party fund investors and the general partner. Foreign currency commitments have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate that prevailed on September 30, 2009, in the case of commitments.

Remaining Cost. The remaining cost represents the amount that will need to be returned to investors before the general partner is entitled to profit participation.

Fair Value. Fair value refers to the value determined by KKR in accordance with U.S. GAAP.

KKR’s Business Segments

As of October 1, 2009, KKR’s business is conducted through three separate business segments: private markets; public markets; and capital markets and principal activities.

Private Markets

KKR’s private markets segment is comprised of its global private equity and infrastructure businesses, which manage and sponsor a group of investment funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions, in global private equity and infrastructure assets. These funds build on KKR’s sourcing advantage and the strong industry knowledge, operating expertise and regulatory and stakeholder management skills of KKR’s professionals, operating consultants and senior advisors to identify attractive investment opportunities and create and realize value for investors.

Since KKR’s inception through September 2009, KKR has raised 15 investment funds with approximately $59.8 billion of capital commitments to invest in private equity and infrastructure opportunities, often in connection with leveraged buyouts, build-ups and growth equity investments, and has sponsored a number of fee and carry paying co-investment structures that allow it to commit additional capital to transactions. As of September 30, 2009, the segment had $41.7 billion of AUM and its actively investing funds included geographically differentiated investment funds and co-investment vehicles with over $14.2 billion of uncalled private equity commitments, providing a significant source of capital that may be deployed globally.

Public Markets

KKR’s public markets segment is comprised of its fixed income and mezzanine finance businesses, as well as other businesses that invest primarily in publicly traded securities. Through these businesses, KKR manages a number of investment funds, structured finance vehicles and separately managed accounts that invest primarily in bank loans, high yield securities, distressed and rescue financings, private debt investments and mezzanine instruments. These funds, vehicles and accounts leverage KKR’s global investment platform, experienced investment professionals and ability to adapt its investment strategies to different market conditions to capitalize on investment opportunities that may arise at every level of the capital structure. As of September 30, 2009, KKR’s public markets segment had $13.1 billion of AUM, including $0.9 billion in KKR Financial Holdings LLC, $0.7 billion in other fixed income funds, $8.2 billion in structured finance vehicles and $3.3 billion in separately managed accounts.

Capital Markets and Principal Activities

KKR’s capital markets and principal activities segment includes the assets acquired from KKR Guernsey, combined with the capital markets business of KKR. KKR’s capital markets business supports the firm, its portfolio companies and clients by providing tailored capital markets advice and developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing. Its activities consist primarily of capital markets advisory services, arranging debt and equity financing for transactions, placing and underwriting securities offerings and structuring new investment products. To allow it to carry out these activities, KKR is registered or authorized through its subsidiaries to carry out certain broker-dealer activities in the United States, Canada, the United Kingdom, United Arab Emirates (Dubai), Australia, Japan, Hong Kong and the European Economic Area. Prior to October 1, 2009, KKR’s capital markets activities were included in the private markets segment.

The assets that KKR acquired from KKR Guernsey provide the Combined Business with a significant source of capital to further grow and expand KKR’s business, increase its participation in its existing portfolio of businesses and further align KKR’s interests with those of its investors and other stakeholders. KKR believes that the resources of its capital markets business combined with the investment expertise of its investment professionals will provide an attractive means for growing and developing this asset base over time.

KKR Segment Review

Private Markets

KKR’s private markets segment’s FRE were $57.5 million during the quarter ended September 30, 2009, a decrease of $35.6 million, or 38.2%, from the quarter ended September 30, 2008. The decrease was primarily due to unusually high management fees reported during the quarter ended September 30, 2008 as a result of the reversal of accrued management fee refunds in the amount of approximately $40 million. In addition, FRE decreased during the quarter ended September 30, 2009 primarily due to an increase in compensation expense as a result of certain non-cash accruals of performance based compensation related to the performance of KKR’s private equity funds. These negative effects were partially offset by a net increase in transaction and monitoring fees primarily reflecting an increase in transaction-fee generating private equity activity during the period and a termination fee earned on a monitoring agreement with a portfolio company.

ENI in KKR's private markets segment was $652.5 million during the quarter ended September 30, 2009, an increase of $1.1 billion compared to an economic net loss of $478.7 million during the quarter ended September 30, 2008. This increase was driven primarily by an increase in net unrealized gains resulting from increases in the fair value of KKR's private equity investment portfolio.

The ENI reported for periods prior to October 1, 2009 does not reflect certain adjustments that are applicable for periods after October 1, 2009 as a result of the Business Combination, which include items such as (i) the exclusion of 40% of the carry allocated to KKR principals; (ii) the exclusion of the capital invested by or on behalf of the general partners of KKR's private equity funds before the completion of the Business Combination and any returns thereon, and (iii) the exclusion of the economic interests associated with the KKR 1996 Fund. The impact of these adjustments would have decreased ENI by approximately $300 million for the quarter ended September 30, 2009. For a further discussion of the adjustments related to the Business Combination please refer to KKR Guernsey's consent solicitation statement dated July 24, 2009, which is available at the Investor Relations page at www.kkr.com.

Public Markets

KKR's public markets segment's FRE were $4.0 million during the quarter ended September 30, 2009, a decrease of $9.1 million, or 69.7%, from the quarter ended September 30, 2008. This decrease was primarily driven by increases in expenses as a result of non-cash stock-based compensation expenses associated with equity grants received from a public permanent capital vehicle managed by KKR, as well as a reduced base management fee rate in certain credit oriented funds and a decrease in the NAV of the public permanent capital vehicle. These decreases were partially offset by incentive fees earned during the quarter ended September 30, 2009.

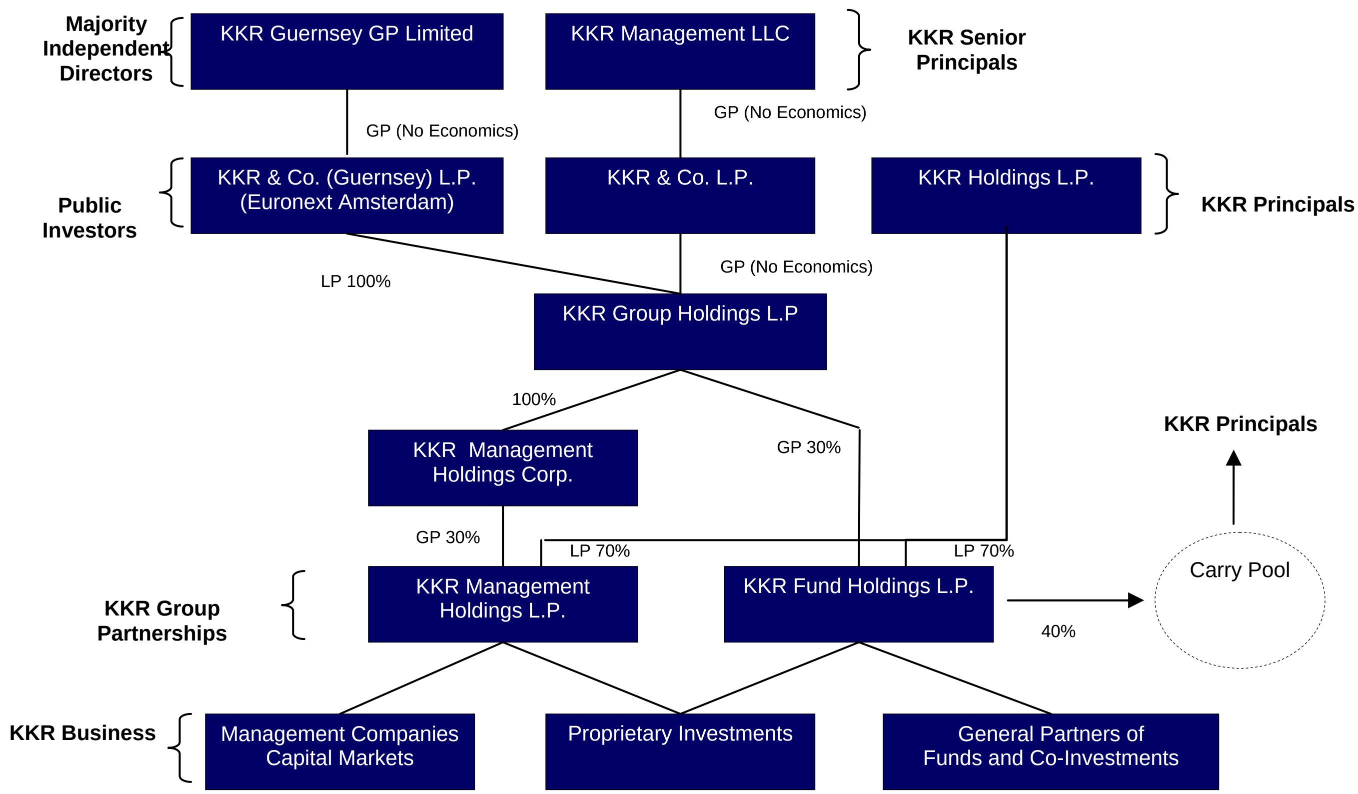
ENI in KKR's public markets segment was $4.1 million during the quarter ended September 30, 2009, a decrease of $9.0 million, or 68.6%, from the quarter ended September 30, 2008. The decrease in fee related earnings described above was the main contributor to the period over period decrease in economic net income.

Capital Markets and Principal Activities

This is a new segment formed in connection with the Business Combination, and financial information for this segment is therefore not separately provided for the periods prior to October 1, 2009.

Organizational Structure

The following diagram illustrates the ownership and organizational structure of KKR upon the completion of the Business Combination and reorganization transactions (see "Business Combination – The Reorganization Transactions" below).



The Reorganization Transactions

In connection with the Business Combination, KKR completed a series of transactions, pursuant to which KKR's business has been reorganized under two partnerships, which are referred to as the ''KKR Group Partnerships.'' The reorganization involved a contribution of equity interests in KKR's business that were held by KKR's principals to the KKR Group Partnerships in exchange for newly issued partner interests in the KKR Group Partnerships held through KKR Holdings. No cash was received in connection with such exchanges. On October 1, 2009, KKR Guernsey and KKR Holdings began to share ratably in the assets, liabilities, profits, losses and distributions, if any, of the Combined Business.

KKR Group Partnership Units

Each KKR Group Partnership has an identical number of partner interests and, when held together, one Class A partner interest in each of the KKR Group Partnerships together represent one KKR Group Partnership Unit. KKR Guernsey, through its interest in Group Holdings, holds 30% of the outstanding KKR Group Partnership Units and KKR's principals, through their interests in KKR Holdings, hold 70% of the outstanding KKR Group Partnership Units. These interests allow Group Holdings and KKR Holdings to share ratably in the assets, liabilities, profits, losses and distributions, if any, of the KKR Group Partnerships based on their respective percentage interests in the KKR Group Partnerships.

KKR has established a KKR Management Holdings L.P. 2009 Equity Incentive Plan, under which KKR may issue awards up to 15% of outstanding KKR Group Partnership Units, subject to adjustment. As of November 19, 2009, no awards have been issued under this plan.

KKR Holdings

KKR's principals hold interests in KKR's business through KKR Holdings, which owns all of the outstanding KKR Group Partnership Units that KKR Guernsey does not own through Group Holdings. These individuals receive financial benefits from KKR's business in the form of distributions and payments received from KKR Holdings and through their direct and indirect participation in the value of KKR Group Partnership Units held by KKR Holdings, as well as through their participation in the carry pool and other interests excluded from the Business Combination.

In addition, KKR Holdings has established an equity incentive plan under which certain equity awards based on the interests held by KKR Holdings were awarded to employees and other service providers to KKR. The interests that these individuals hold in KKR Holdings are generally subject to transfer restrictions and, except for certain interests that vested upon completion of the Business Combination, are subject to time and/or performance based vesting requirements. While employed by KKR, certain of these individuals are also subject to minimum retained ownership requirements.

Components of KKR's Business Owned by the KKR Group Partnerships

As of October 1, 2009, except for non-controlling interests in KKR's funds that are held by fund investors, interests in the general partners of the 1996 Fund and certain other retained interests described below, the KKR Group Partnerships own:

- all of the controlling and economic interests in KKR's fee-generating management companies and capital markets companies, which allows KKR Guernsey to share ratably in the management, monitoring, transaction and incentive fees earned from all of KKR's funds, managed accounts, portfolio companies, capital markets transactions and other investment products;

- controlling and economic interests in the general partners of KKR's funds and the entities that are entitled to receive carry from KKR's co-investment vehicles, which allows KKR Guernsey to share ratably in the carried interest received by them, as well as any returns on investments made by or on behalf of the general partners after the completion of the Business Combination; and

- all of the controlling and economic interests in the KPE Investment Partnership and the other assets of KKR Guernsey, which allow KKR Guernsey to share ratably in the returns that the KPE Investment Partnership and such other assets generate.

With respect to KKR's active and future funds and co-investment vehicles that provide for carried interest, KKR intends to continue to 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. KKR expects to allocate approximately 40% of the carry it receives from these funds and vehicles to its carry pool, although this percentage may fluctuate over time. Allocations to the carry pool may not exceed 40% without the approval of a majority of the independent directors of the Managing Partner.

In connection with the Business Combination, certain minority investors retained additional interests in KKR's business and such interests were not acquired by the KKR Group Partnerships. Please refer to the Consent Solicitation Statement filed July 24, 2009 "Organizational Structure—Components of KKR's Business Owned by the KKR Group Partnerships" for a description of these additional interests.

KKR Management Holdings L.P. owns Kohlberg Kravis Roberts & Co. L.P., an SEC-registered investment adviser, and KKR Capital Markets, an SEC-registered broker-dealer, and other fee generating businesses, including KKR Asset Management. The portion of its taxable income allocable to public investors is "blocked" by KKR Management Holdings Corp. and is taxed at a corporate rate for U.S. federal income tax purposes.

KKR Fund Holdings L.P. owns the general partners of all private equity funds included in KKR's financial information (but not the KKR 1996 Fund or any earlier private equity funds) and certain co-investment vehicles. Its taxable income flows through to public investors for U.S. federal income tax purposes.

Future Liquidity Needs and Sources of Cash

Liquidity Needs

KKR expects that its primary liquidity needs will consist of cash required to: (i) continue to grow its business, including funding capital commitments made to existing and future funds and any net capital requirements of its capital markets companies, (ii) service debt obligations, including indebtedness acquired in connection with the Business Combination, (iii) fund cash operating expenses, (iv) pay amounts that may become due under its tax receivable agreement with KKR Holdings; and (v) make cash distributions in accordance with KKR's distribution policy. See ''Distribution Policy.'' KKR may also require cash to fund contingent obligations under clawback and net loss sharing arrangements. KKR believes that the sources of liquidity described below will be sufficient to fund its working capital requirements for the next twelve months.

The agreements governing KKR's traditional private equity funds generally require the general partners of the funds to make minimum capital commitments to the funds, which usually range from 2% to 4% of a fund's total capital commitments at final closing. In connection with the Business Combination, KKR acquired the KPE Investment Partnership, which had directly or indirectly made capital commitments to certain of its consolidated funds. As of September 30, 2009, KKR and the KPE Investment Partnership had the following uncalled commitments to KKR's private equity funds, with amounts in thousands:

	Uncalled Commitments		
	KKR	**KPE Investment Partnership**	**Total**
KKR European Fund III, Limited Partnership	$ 259,076	$ 270,183	$ 529,259
KKR 2006 Fund L.P.	96,882	390,409	487,291
KKR Asian Fund L.P.	59,658	168,470	228,128
KKR E2 Investors L.P.	22,674	17,644	40,318
	$ 438,290	$ 846,706	$ 1,284,996

Subsequent to the Business Combination, the uncalled commitments for the Combined Business will include those of both KKR and the KPE Investment Partnership.

The partnership documents governing KKR's traditional private equity funds generally include a "clawback" or, in certain instances, a "net loss sharing" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return or contribute amounts to the fund for distribution to investors at the end of the life of the fund. Under a "clawback" provision, upon the liquidation of a fund, the general partner is required to return, on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled. Excluding carried interest received by the general partners of the KKR 1996 Fund, as of September 30, 2009, the amount of carried interest KKR has received, that is subject to this contingent repayment obligation was $104.5 million, assuming that all applicable private equity funds were liquidated at their September 30, 2009 fair values. Had the investments in such funds been liquidated at zero value, the contingent repayment obligation would have been $755.6 million. The corresponding amounts as of June 30, 2009 were $223.6 million and $768.0 million, respectively. Under a “net loss sharing provision,” upon the liquidation of a fund, the general partner is required 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 traditional 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 September 30, 2009, KKR’s contingent repayment obligation in connection with the net loss sharing provision would have been approximately $140.1 million. If the vehicles were liquidated at zero value, the contingent repayment obligation in connection with the net loss sharing provision as of September 30, 2009 would have been approximately $1,135.0 million. The corresponding amounts as of June 30, 2009 were $258.2 million and $1,090.8 million, respectively.

KKR principals remain responsible for any clawback obligations relating to carry distributions received prior to the Business Combination up to the aggregate contingent repayment obligation as of June 30, 2009, which was $223.6 million, as well as any clawback obligations relating to any carry distributions that they receive after the Business Combination pursuant to any carried interest allocated directly to them as carry pool participants. KKR is responsible for any other clawback obligations and any amounts due under net loss sharing arrangements and has indemnified its principals for any personal guarantees that they have provided with respect to such amounts.

Historically KKR funded capital commitments with cash from operations that otherwise would be distributed to its owners. Following the Business Combination, KKR expects to fund any capital contributions that the general partners are required to make to a fund with future operating cash flows and other sources of liquidity available to KKR.

In connection with the Business Combination, KKR Guernsey’s investment in KKR is held through a holding company structure and the applicable holding companies do not own any material cash-generating assets other than their direct and indirect holdings in KKR Group Partnership Units. Additionally, KKR Guernsey entered into an exchange agreement with Group Holdings and KKR Holdings pursuant to which Group Holdings, KKR Holdings and certain transferees of their respective KKR Group Partnership Units effectively may, up to four times each year, exchange KKR Group Partnership Units held by them for KKR Guernsey units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance with applicable lock-up, vesting and transfer restrictions. At the election of the Group Partnerships, subject to the approval of a majority of the independent directors of the Managing Partner, the KKR Group Partnerships may settle most types of exchanges of KKR Group Partnership Units with cash in an amount equal to the fair market value of the KKR Guernsey units that would otherwise be deliverable in such exchanges.

In addition, KKR Guernsey and KKR Holdings entered into a tax receivable agreement requiring KKR Guernsey’s intermediate holding company to pay to KKR Holdings or transferees of their KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding company actually realizes (or is deemed to realize, in the case of an early termination payment by KKR Guernsey’s intermediate holding company or a change of control) as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding company actually realizes (or is deemed to realize) as a result of increases in tax basis that arise due to future payments under the agreement.

While the actual increase in tax basis and amount and timing of any payments under the tax receivable agreement will vary depending upon a number of factors, including the timing of exchanges, the price of KKR Guernsey units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of taxable income, KKR expects that as a result of the size of the increases in the tax basis of the tangible and intangible assets of the KKR Group Partnerships, the payments that may be required to be made could be substantial. KKR does not currently anticipate that these payments will impact its liquidity needs, as they generally will be made only to the extent that the intermediate holding company actually realizes cash savings as exchanges of KKR Group Partnership Units by KKR’s principals. However, the intermediate holding company’s obligations under the tax receivable agreement would be effectively accelerated upon the occurrence of an early termination of the tax receivable agreement by the intermediate holding company or certain mergers, asset sales and other forms of business combinations or other changes of control. In these situations, the obligations under the tax receivable agreement could have a substantial negative impact on KKR’s liquidity. In the event that other of KKR’s current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if the

Group Holdings or its subsidiaries become taxable as a corporation, for U.S. federal income tax purposes, each will become subject to a tax receivable agreement with substantially similar terms.

KKR intends to make quarterly cash distributions to holders of its interests in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of its asset management business each year in excess of amounts determined by the KKR Managing Partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and its funds, to comply with applicable law and any of its debt instruments or other agreements. See ''Distribution Policy.'' KKR's distribution policy reflects its belief that distributing substantially all of the cash earnings of its asset management business will provide transparency for holders of its interests and impose on KKR an investment discipline with respect to the businesses and strategies that it pursues. Because KKR will not know what the cash earnings of its asset management business will be for any year until the end of such year, KKR expects that its first three quarterly distributions in respect of any given year will generally be smaller than the final quarterly distribution in respect of such year. KKR expects that its first quarterly distribution will be paid in the first quarter of 2010 in respect of the period from October 1, 2009 through December 31, 2009.

Sources of Cash

KKR's principal source of cash consists of cash and cash equivalents contributed to the KKR Group Partnerships as part of the Business Combination. KKR also receives cash from time to time from: (i) its operating activities, including the management, advisory and incentive fees earned from all of its funds, managed accounts, portfolio companies, capital markets transactions and other investment products; (ii) realizations on carried interest in its private markets segment and assets in its capital markets and principal activities segment; (iii) realized returns that are generated on investments that are made with capital invested by or on behalf of the general partners of its funds following the Business Combination and related transactions; and (iv) borrowings under the credit facilities described below.

KKR has access to funding under various credit facilities that it has entered into with major financial institutions. The following is a summary of the principal terms of these facilities:

- In February 2008, the management company for KKR's private equity funds entered into a credit agreement with a major financial institution providing for revolving borrowings of up to $1.0 billion with a $50.0 million sublimit for swingline notes and a $25.0 million sublimit for letters of credit. This facility has a term of three years that expires on February 2011, which may be extended through February 2013, at the option of KKR. As of September 30, 2009, $189.2 million was outstanding under this facility and the interest rate on such borrowings was approximately 0.8% as of September 30, 2009.

- In February 2008, the holding company for KKR's U.S. capital markets business entered into a credit agreement with a major financial institution. The credit agreement provides for revolving borrowings of up to $500.0 million with a $500.0 million sublimit for letters of credit. This facility has a term of five years. As of September 30, 2009, there was $14.0 million outstanding under this agreement and the interest rate on such borrowings was approximately 1.7% as of September 30, 2009. Borrowings under this credit agreement are generally not available to fund obligations of KKR that are not capital markets related.

- In June 2007, the KPE Investment Partnership entered into a five-year revolving credit agreement with a syndicate of lenders. The credit agreement provided for up to $1.0 billion of senior secured credit, subject to availability under a borrowing base determined by the value of certain investments pledged as collateral security for obligations under the agreement. In September 2009, an original lender under the credit agreement that became bankrupt with an initial $75.0 million commitment was removed from the syndicate of lenders, which reduced availability under the credit agreement from $1.0 billion to $925.0 million. The borrowing base is subject to certain investment concentration limitations and the value of the investments constituting the borrowing base is subject to certain advance rates based on type of investment. As of September 30, 2009, borrowings outstanding under this credit agreement amounted to $949.0 million (including $64.8 million that is payable to KKR), while the remaining availability was $5.4 million, and the interest rate on such borrowings was approximately 1.7% as of September 30, 2009.

From time to time, KKR may borrow amounts to satisfy general short-term needs of the business by opening short-term lines of credit with established financial institutions. These amounts are generally repaid within 30 days, at which time such short-term lines of credit would close. As of September 30, 2009, there were no borrowings outstanding under such lines of credit.

Common Units

Common Units on the Euronext Amsterdam

As of September 30, 2009, KKR Guernsey had 204,902,226 common units outstanding. As of November 19, 2009, KKR Guernsey had 204,902,226 common units outstanding or, as a result of the Business Combination, 683,007,420 common units on a fully diluted basis giving effect to common units that may be issued by KKR Guernsey in exchange for additional equity in the Combined Business.

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

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

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

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

Effective October 2, 2009, the ticker symbol for KKR Guernsey's common units on the Euronext Amsterdam changed from "KPE" to "KKR." As of November 19, 2009, the closing market price per common unit was $8.80.

Ownership and Transfer Restrictions

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

Governance

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

As of October 1, 2009, KKR Guernsey's only asset is the 30% interest in KKR's business that it holds through Group Holdings. The KKR Managing Partner is the general partner of KKR & Co. L.P., which is the parent company of the general partners and sole shareholders of the entities that manage the business and affairs of Group Holdings and the KKR Group Partnerships. KKR Guernsey does not hold securities of the KKR Managing Partner. The KKR Managing Partner has a board of directors, consisting of KKR's founders Henry Kravis and George Roberts, who also serve as KKR's Co-Chief Executive Officers.

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

Distribution Policy

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

KKR's distribution policy reflects its belief that distributing substantially all of the cash earnings of its asset management business will provide transparency for holders of its interests and impose on KKR an investment discipline with respect to the businesses and strategies that it pursues. KKR expects that its first quarterly distribution will be paid in the first quarter of 2010 in respect of the period from October 1, 2009 through December 31, 2009.

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

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

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

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

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

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

OPERATING AND LIQUIDITY OVERVIEW

The financial information presented in this operating and liquidity overview for KKR Guernsey and the KPE Investment Partnership are as of and for the quarter and nine months ended September 30, 2009 and should be read in conjunction with the unaudited financial statements of KKR Guernsey and the unaudited consolidated financial statements of the KPE Investment Partnership included elsewhere in this financial report. The financial information for KKR Guernsey and the KPE Investment Partnership reflects historical financial information for dates or periods completed prior to the consummation of the Business Combination and does not include any pro forma adjustments relating the Business Combination. The following does not reflect the results of KKR and is not representative of KKR results going forward.

KKR Guernsey's financial highlights as of and for the quarter and nine months ended September 30, 2009 were as follows, with amounts in thousands, except per unit amounts and percentages:

Net assets at the end of the period	$ 3,479,922
Net asset value per unit at the end of the period	16.98
Quarter ended September 30, 2009:	
Total return	15.8%
Total return (annualized)	63.1%
Nine months ended September 30, 2009:	
Total return	32.9%
Total return (annualized)	44.0%

Operating Results of KKR Guernsey

The following table sets forth KKR Guernsey's unaudited operating results for the quarters and nine months ended September 30, 2009 and September 30, 2008, with amounts in thousands:

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net investment income (loss) allocated from the KPE Investment Partnership:				
Investment income	$ 24,267	$ 9,814	$ 37,229	$ 40,535
Expenses	19,662	23,646	56,739	91,230
	4,605	(13,832)	(19,510)	(50,695)
Investment income—interest income	5	27	16	87
Expenses—General and administrative expenses	15,978	13,430	19,012	16,173
Net investment loss	(11,368)	(27,235)	(38,506)	(66,781)
Realized and unrealized gain (loss) from investments and foreign currency allocated from the KPE Investment Partnership:				
Net realized gain (loss)	5,290	(19,683)	(78,401)	(58,204)
Net change in unrealized appreciation (depreciation)	481,912	(648,964)	978,160	(999,501)
Net gain (loss) on investments and foreign currency transactions	487,202	(668,647)	899,759	(1,057,705)
Net increase (decrease) in net assets resulting from operations	$ 475,834	$ (695,882)	$ 861,253	$ (1,124,486)

Operating Results of KKR Guernsey for the Quarters and Nine Months Ended September 30, 2009 and September 30, 2008

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

Net investment income (loss) allocated from the KPE Investment Partnership was generally comprised of our portion of the KPE Investment Partnership's income and expenses, which included interest and dividend income, management fees, interest expense, dividend expense and general and administrative expenses. During the quarter ended September 30, 2009, the net investment income allocated from the KPE Investment Partnership was $4.6 million, compared to an allocated net investment loss of $13.8 million during the quarter ended September 30, 2008. The net investment loss allocated from the KPE Investment Partnership was $19.5 million and $50.7 million during the nine months ended September 30, 3009 and September 30, 2008, respectively. See "Consolidated Operating Results of the KPE Investment Partnership" below.

Investment Income

During the quarters and nine months ended September 30, 2009 and September 30, 2008, investment income of less than $0.1 million represented interest income from cash management activities.

General and Administrative Expenses

General and administrative expenses during the quarters ended September 30, 2009 and September 30, 2008 were $16.0 million and $13.4 million, respectively, and $19.0 million and $16.2 million during the nine months ended September 30, 2009 and September 30, 2008, respectively. General and administrative expenses included professional fees related to the Business Combination, administrative costs, fees for other professional services not related to the Business Combination and expenses of our Managing Partner's board of directors.

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

The net realized gain (loss) and net change in unrealized appreciation (depreciation) were based on KKR Guernsey's allocated portion of the KPE Investment Partnership's net gain (loss) on investments and foreign currency transactions. See "Consolidated Operating Results of the KPE Investment Partnership" below.

During the quarter ended September 30, 2009, we recorded a net realized gain of $5.3 million compared to a net realized loss of $19.7 million during the quarter ended September 30, 2008. During the nine months ended September 30, 2009 and September 30, 2008, we recorded a net realized loss of $78.4 million and $58.2 million, respectively.

Additionally, we recorded a net change in unrealized appreciation of $481.9 million compared to net unrealized depreciation of $649.0 million during the quarters ended September 30, 2009 and September 30, 2008, respectively. We recorded a net change in unrealized appreciation of $978.2 million compared to net unrealized depreciation of $999.5 million during the nine months ended September 30, 2009 and September 30, 2008, respectively.

Net Increase (Decrease) in Net Assets Resulting from Operations

During the quarter ended September 30, 2009, the net increase in net assets resulting from operations was $475.8 million compared to a net decrease in net assets resulting from operations of $695.9 million during the quarter ended September 30, 2008. KKR Guernsey's total return for the quarters ended September 30, 2009 and September 30, 2008 was 15.8% and (15.3)%, respectively, and on an annualized basis was 62.8% and (60.8)%, respectively.

During the nine months ended September 30, 2009, the net increase in net assets resulting from operations was $861.3 million compared to a net decrease in net assets resulting from operations of $1,124.5 million during the nine months ended September 30, 2008. KKR Guernsey's total return for the nine months ended September 30, 2009 and September 30, 2008 was 32.9% and (22.5)%, respectively, and on an annualized basis was 44.0% and (30.2)%, respectively.

Reconciliation of KKR Guernsey's Allocable Share of the KPE Investment Partnership's Change in Net Assets

During the quarters and nine months ended September 30, 2009 and September 30, 2008, the change in net assets allocated from the KPE Investment Partnership to KKR Guernsey was as follows, with amounts in thousands:

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net increase (decrease) in net assets resulting from operations of the KPE Investment Partnership	$ 492,852	$ (683,874)	$ 882,139	$ (1,110,627)
Management fees incurred by the KPE Investment Partnership (100% allocated to the limited partner)	10,603	11,560	28,244	38,298
Net increase (decrease) in net assets resulting from operations before management fees incurred by the KPE Investment Partnership	503,455	(672,314)	910,383	(1,072,329)
Limited partner interest percentage (rounded)	99.8%	99.8%	99.8%	99.8%
	502,410	(670,919)	908,493	(1,070,102)
Management fees incurred by the KPE Investment Partnership and allocated to the limited partner	10,603	11,560	28,244	38,298
Net increase (decrease) in net assets resulting from operations of the KPE Investment Partnership allocated to KKR Guernsey	$ 491,807	$ (682,479)	$ 880,249	$ (1,108,400)
The allocation of the KPE Investment Partnership's change in net assets consisted of the following, as reflected on KKR Guernsey's statement of operations:				
Net investment income (loss)	4,605	(13,832)	$ (19,510)	$ (50,695)
Net gain (loss) on investments and foreign currency transactions	487,202	(668,647)	899,759	(1,057,705)
	$ 491,807	$ (682,479)	$ 880,249	$ (1,108,400)

Consolidated Operating Results of the KPE Investment Partnership

The KPE Investment Partnership had a fully invested portfolio of diversified investments in 81 companies, nine industry groups and based in 16 countries as of September 30, 2009. These investments included limited partner interests in six KKR private equity funds, co-investments in 13 companies alongside the private equity funds, negotiated equity investments in three companies and an investment in an opportunistic credit fund.

The following table sets forth the unaudited consolidated operating results of the KPE Investment Partnership for the quarters and nine months ended September 30, 2009 and September 30, 2008, with amounts in thousands:

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Investment income:				
Interest income	$ 5,152	$ 9,636	$ 12,945	$ 31,663
Dividend income, net of withholding taxes of $7,510, $85, $7,510 and $334, respectively	19,165	199	24,362	8,955
Total investment income	24,317	9,835	37,307	40,618
Expenses:				
Management fees	10,603	11,560	28,244	38,298
Interest expense	7,815	11,351	25,840	48,775
Dividend expense	—	194	—	1,090
General and administrative expenses	1,262	567	2,713	3,178
Total expenses	19,680	23,672	56,797	91,341
Net investment income (loss)	4,637	(13,837)	(19,490)	(50,723)
Realized and unrealized gain (loss) from investments and foreign currency:				
Net realized gain (loss), net of withholding tax (benefit) of $0, $0, $0 and $(37), respectively	5,301	(19,722)	(78,565)	(58,324)
Net change in unrealized appreciation (depreciation)	482,914	(650,315)	980,194	(1,001,580)
Net gain (loss) on investments and foreign currency transactions	488,215	(670,037)	901,629	(1,059,904)
Net increase (decrease) in net assets resulting from operations	$ 492,852	$ (683,874)	$ 882,139	$ (1,110,627)

Operating Results of the KPE Investment Partnership

Interest Income

During the quarters ended September 30, 2009 and September 30, 2008, interest income was $5.2 million and $9.6 million, respectively, and $12.9 million and $31.7 million during the nine months ended September 30, 2009, and September 30, 2008, respectively, which primarily represented interest on cash management activities.

Dividend Income

During the quarters ended September 30, 2009 and September 30, 2008, dividend income was $19.2 million and $0.2 million, respectively, and $24.4 million and $9.0 million during the nine months ended September 30, 2009 and September 30, 2008, respectively. Dividend income represented dividends received from investments in certain KKR portfolio companies and public equities.

Management Fees

During the quarters ended September 30, 2009 and September 30, 2008, management fees were $10.6 million and $11.6 million, respectively. Management fees were $28.2 million and $38.3 million during the nine months ended September 30, 2009 and September 30, 2008, respectively.

Interest Expense

During the quarters ended September 30, 2009 and September 30, 2008, interest expense was $7.8 million and $11.4 million, respectively, and $25.8 million and $48.8 million during the nine months ended September 30, 2009 and September 30, 2008, respectively. Interest expense was incurred related primarily to the revolving credit facility and long-term debt financing of the investment in Sun Microsystems, Inc. ("Sun").

Dividend Expense

During the quarter and nine months ended September 30, 2008, dividend expense was $0.2 million and $1.1 million, respectively, related to securities sold short. The KPE Investment Partnership did not incur dividend expense during the quarter and nine months ended September 30, 2009.

General and Administrative Expenses

During the quarters ended September 30, 2009 and September 30, 2008, general and administrative expenses were $1.3 million and $0.6 million, respectively, and $2.7 million and $3.2 million during the nine months ended September 30, 2009 and September 30, 2008, respectively. General and administrative expenses were comprised primarily of fees for professional services.

Net Realized Gain (Loss) from Investments and Foreign Currency Transactions

During the quarter ended September 30, 2009, the KPE Investment Partnership recorded a net realized gain of $5.3 million, which primarily included the partial sale of security interests in a portfolio company and the sale of investments by KKR Strategic Capital Institutional Fund, Ltd. ("SCF"), offset by realized losses related to the settlement of futures contracts and a forward foreign currency contract.

During the quarter ended September 30, 2008, the KPE Investment Partnership recorded a net realized loss of $19.7 million, which primarily included losses on the sales of investments by SCF and opportunistic investments in public equities and related derivative instruments.

During the nine months ended September 30, 2009, the KPE Investment Partnership recorded a net realized loss of $78.6 million, which was primarily included the sale of opportunistic investments in public equities and related derivative instruments, the sale of certain interests in co-investments and the sale of investments by SCF, offset by realized gains related to foreign currency transactions and the partial sale of security interests in a portfolio company.

During the nine months ended September 30, 2008, the KPE Investment Partnership recorded a net realized loss of $58.3 million, which primarily included losses on the sales of opportunistic investments in public equities and derivative instruments, secondary sales of limited partner interests in the KKR 2006 Fund and the KKR Millennium Fund and the sale of investments by SCF, offset by a realized gain from the sale of certain investments by KKR's private equity funds.

Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Transactions

During the quarters ended September 30, 2009 and September 30, 2008, the net change in unrealized appreciation (depreciation) on investments and foreign currency transactions was as follows, with amounts in thousands:

	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Opportunistic and temporary investments	$ 5,285	$ (27,485)	$ 39,732	$ (19,380)
Co-investments	256,216	(287,108)	450,548	(475,969)
Negotiated equity investments	5,636	(176,902)	147,122	(313,147)
Investments in private equity funds	192,892	(151,071)	273,480	(169,719)
Investments in a non-private equity fund	22,885	(7,749)	69,312	(23,365)
	$ 482,914	$ (650,315)	$ 980,194	$ (1,001,580)

The net change in unrealized appreciation (depreciation) was predominantly comprised of changes in fair values of investments, including the impact of foreign currency translation, but also included the changes in value of forward foreign currency contracts, changes in foreign currency exchange rates for certain borrowings outstanding under the revolving credit facility and a change in value of an interest rate swap contract held in connection with the revolving credit facility. The net change in unrealized appreciation (depreciation) was recorded net of an accounting entry related to the reversal of net unrealized depreciation due to realizations.

The most significant increases (decreases) in the fair value of investments included the following, with amounts in thousands:

	Quarter Ended September 30, 2009	Nine Months Ended September 30, 2009
Private equity fund investments:		
Alliance Boots GmbH	$ 63,578	$ 93,708
Avago Technologies Limited	23,065	31,223
Biomet, Inc.	25,636	25,636
Capmark Financial Group Inc.	—	(15,200)
Dollar General Corporation	58,216	232,865
East Resources, Inc.	10,078	10,078
Energy Future Holdings Corp.	—	(73,185)
HCA Inc.	124,512	226,501
KION Group GmbH	587	(13,167)
Legrand Holdings S.A.	21,039	29,828
PagesJaunes Groupe S.A.	40,624	40,358
ProSiebenSat.1 Media AG	387	(14,631)
The Nielsen Company B.V.	17,284	17,284
Other private equity fund investments	65,128	90,019
	450,135	681,317
Negotiated equity investments:		
Sun Microsystems, Inc.	63,000	147,000
Orient Corporation	(57,364)	122
	5,636	147,122
Opportunistic investments	26,470	68,940
	483,992	897,379
Reversal of depreciation (appreciation)	(1,078)	82,815
Net change in unrealized appreciation	$ 482,914	$ 980,194

During the quarter ended September 30, 2009, the KPE Investment Partnership recorded an accounting entry to reverse previously recorded net unrealized appreciation of $1.0 million related primarily to the partial sale of security interests in a portfolio company. During the nine months ended September 30, 2009, net unrealized depreciation of $83.5 million was reversed related primarily to the sale of certain co-investments and opportunistic investments.

During the quarter ended September 30, 2008, the net change in unrealized depreciation related to private equity fund investments and co-investments was primarily the result of a general decrease in the value of certain portfolio companies underlying the investments, specifically a decrease in value of NXP B.V. ("NXP"), Energy Future Holdings Corp. ("EFH"), KION Group GmbH ("KION"), Capmark Financial Group Inc. ("Capmark"), Alliance Boots (due entirely to the impact of the change in the exchange rate from British pounds sterling to U.S. dollars), ProSiebenSat.1 Media AG ("ProSieben") and The Nielsen Company B.V. ("Nielsen. The net unrealized depreciation in the value of negotiated equity investments was due to the decrease in the fair values of Aero Technical Support & Services S.à r.l. ("Aveos"), which was marked to nil as of September 30, 2008, Sun and Orico.

During the nine months ended September 30, 2008, the net change in unrealized depreciation related to private equity fund investments and co-investments was primarily the result of a general net decrease in the value of certain portfolio companies underlying the investments, specifically a decrease in value of PagesJaunes, ProSieben, NXP, Capmark, Legrand, KION and Alliance Boots (due entirely to the impact of the change in the exchange rate from British pounds sterling to U.S. dollars), offset by an increase in the value of Nielsen. The unrealized depreciation related to negotiated equity investments was the result of a decrease in the fair values of Sun, Aveos and Orico.

During the quarter and nine months ended September 30, 2008, the KPE Investment Partnership recorded an accounting entry to reverse previously recorded net unrealized depreciation of $0.7 million and $14.0 million, respectively, related to the sales of investments.

Net Increase (Decrease) in Net Assets Resulting from Operations

During the quarter and nine months ended September 30, 2009, the net increase in net assets resulting from operations was $492.9 million and $882.1 million, respectively, compared to a net decrease of $683.9 million and $1,110.6 million during the quarter and nine months ended September 30, 2008, respectively. The KPE Investment Partnership's total returns, based on weighted average net assets, were as follows:

	Quarter Ended		Nine Months Ended	
	September 30, 2009	**September 30, 2008**	**September 30, 2009**	**September 30, 2008**
Period indicated	16.4 %	(14.9)%	33.6%	(22.3)%
Annualized basis for the period indicated	64.9	(59.6)	44.9	(29.7)

Liquidity and Capital Resources

A discussion of future liquidity needs and sources of cash is included above under "Business Combination."

Our Cash Flows for the Nine Months Ended September 30, 2009 and September 30, 2008

As of September 30, 2009 and September 30, 2008, KKR Guernsey's cash balance was $470.3 million and $3.6 million, respectively. During the nine months ended September 30, 2009, cash provided by operating activities was $468.2 million. KKR Guernsey received a $474.1 million distribution from the KPE Investment Partnership during the nine months ended September 30, 2009, which was partially offset by working capital requirements.

During the nine months ended September 30, 2008, cash used in operating activities was $1.2 million. KKR Guernsey received distributions from the KPE Investment Partnership totaling $10.0 million, which were partially offset by working capital requirements. Cash provided by financing activities during the nine months ended September 30, 2008 was $4.4 million as a result of a contribution from affiliates of KKR in exchange for 352,225 newly issued common units pursuant to the investment agreement.

The KPE Investment Partnership's Net Cash Flows for the Nine Months Ended September 30, 2009 and September 30, 2008

As of September 30, 2009 and September 30, 2008, the KPE Investment Partnership's cash balance was $289.4 million and $142.7 million, respectively. During the nine months ended September 30, 2009, cash provided by operating activities was $140.0 million due primarily to $200.4 million from the sale of certain interests in co-investments, $92.3 million of proceeds received from the sale of opportunistic investments and $32.7 million from the settlement of shorts, offset by the purchase of investments of $202.6 million and working capital requirements. Cash flows used in financing activities during the nine months ended September 30, 2009 were $484.5 million, which were comprised of distributions to the KPE Investment Partnership's general and limited partners and the payment of borrowings under the KPE Investment Partnership's revolving credit agreement, offset by borrowings under the revolving credit agreement.

During the nine months ended September 30, 2008, cash provided by operating activities was $389.4 million due primarily to the sale of private equity and opportunistic investments totaling $925.0 million, offset by $522.1 million from the purchase of opportunistic investments and the purchase of investments by private equity funds. Cash flows used in financing activities during the nine months ended September 30, 2008 were $502.2 million, which were comprised of the payments to reduce borrowings outstanding under the KPE Investment Partnership's revolving credit agreement and a distribution to the KPE Investment Partnership's general and limited partners.

* * * * *

Notice to Investors

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

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

Cautionary Note Regarding Forward-Looking Statements and Certain Risks

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

- our investment objective changed from predominantly making investments in multiple KKR private equity funds and KKR portfolio companies to a single investment in KKR itself, and is subject to a number of risks discussed in the consent solicitation statement dated July 24, 2009, which is available at the Investor Relations page at www.kkr.com;

- changes in financial markets, foreign exchange rates, interest rates or industry, economic or political conditions, including, but not limited to, disruptions in the global financial markets and considerable declines in the valuations of debt and equity securities;

- factors affecting our investment, including, but not limited to, the ability of KKR and its investment funds and portfolio companies to achieve their business, operating, financial, investment and other objectives, and its ability to monetize the unrealized values of investments;

- factors affecting the financial condition and liquidity of KKR, and its access to, or sources of, capital or financing, as and when needed to fund its commitments, debt obligations, expenses and other requirements including, but not limited to:
    - factors affecting KKR's existing financing, including, but not limited to, the value of collateral supporting such financing and the ability to refinance such financing at attractive rates before it becomes due;
    - factors affecting KKR's ability to time investments and manage available cash and cash flows, if any, from the operations of its investment funds and its portfolio investments in a manner that allows them to fund its capital commitments, expenses and other capital requirements as and when due;
- potential conflicts of interest that may result from our organizational, ownership or investment structure, including, but not limited to, KKR's role in preparing valuations and other matters, or the appearance that such conflicts may occur;
- the volatility of the capital markets and the market price of our common units and RDUs;
- a unitholder may, from time to time or indefinitely, have obligations to pay taxes based on their allocation of KKR Guernsey's income without having received sufficient or any distributions from KKR Guernsey; and
- the risks, uncertainties and other factors described elsewhere in this report.

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

* * * * *

DIRECTORS, ADVISORS AND CONTACT INFORMATION

Board of Directors of the Managing Partner:

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

*Independent directors

The address of each of these individuals is:

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STATEMENTS OF RESPONSIBILITY

The portions of this financial report that relate to KKR Guernsey, including the financial statements and other financial information of KKR Guernsey contained herein, are the responsibility of and have been approved by the Managing Partner. The Managing Partner is responsible for preparing such portions of this financial report to show the state of affairs of KKR Guernsey as of September 30, 2009 and of the profit or loss for the quarter and nine months ended September 30, 2009, as well as to prepare such financial statements in accordance with applicable Dutch and Guernsey laws and U.S. GAAP.

The portions of this financial report that relate to the KPE Investment Partnership, including the consolidated financial statements and other financial information of the KPE Investment Partnership contained herein, are the responsibility of and have been approved by the Managing Investor. The Managing Investor is responsible for preparing such portions of this financial report to show the state of affairs of the KPE Investment Partnership as of September 30, 2009 and of the profit or loss for the quarter and nine months ended September 30, 2009, as well as to prepare such financial statements in accordance with applicable Guernsey law and U.S. GAAP.

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

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

INDEX TO UNAUDITED FINANCIAL STATEMENTS

	Page
Unaudited Statements of Assets and Liabilities as of September 30, 2009 and December 31, 2008	F-2
Unaudited Statements of Operations for the Quarters and Nine Months Ended September 30, 2009 and September 30, 2008	F-3
Unaudited Statements of Changes in Net Assets for the Year Ended December 31, 2008 and the Nine Months Ended September 30, 2009	F-4
Unaudited Statements of Cash Flows for the Nine Months Ended September 30, 2009 and September 30, 2008	F-5
Notes to the Unaudited Financial Statements	F-6

KKR & CO. (GUERNSEY) L.P.

STATEMENTS OF ASSETS AND LIABILITIES (UNAUDITED)
(Amounts in thousands, except unit and per unit amounts)

	September 30, 2009	December 31, 2008
ASSETS:		
Investments in limited partner interests of KKR PEI Investments, L.P., at fair value	$ 3,029,071	$ 2,622,970
Cash and cash equivalents	470,263	2,095
Due from affiliate	164	—
Other assets	338	171
Total assets	3,499,836	2,625,236
LIABILITIES:		
Accrued liabilities	19,914	4,927
Due to affiliate	—	1,640
Total liabilities	19,914	6,567
COMMITMENTS AND CONTINGENCIES	—	—
NET ASSETS	$ 3,479,922	$ 2,618,669
NET ASSETS CONSIST OF:		
Partners' capital contributions, net (common units outstanding of 204,902,226)	$ 4,834,517	$ 4,834,517
Distributable loss	(1,354,595)	(2,215,848)
	$ 3,479,922	$ 2,618,669
Net asset value per common unit	$ 16.98	$ 12.78
Market price per common unit	$ 9.35	$ 3.50

See accompanying notes to the unaudited financial statements.

KKR & CO. (GUERNSEY) L.P.

STATEMENTS OF OPERATIONS (UNAUDITED)
(Amounts in thousands)

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net investment income (loss) allocated from the KPE Investment Partnership:				
Investment income	$ 24,267	$ 9,814	$ 37,229	$ 40,535
Expenses	19,662	23,646	56,739	91,230
	4,605	(13,832)	(19,510)	(50,695)
Investment income—interest income	5	27	16	87
Expenses—General and administrative expenses	15,978	13,430	19,012	16,173
Net investment loss	(11,368)	(27,235)	(38,506)	(66,781)
Realized and unrealized gain (loss) from investments and foreign currency allocated from the KPE Investment Partnership:				
Net realized gain (loss)	5,290	(19,683)	(78,401)	(58,204)
Net change in unrealized appreciation (depreciation)	481,912	(648,964)	978,160	(999,501)
Net gain (loss) on investments and foreign currency transactions	487,202	(668,647)	899,759	(1,057,705)
Net increase (decrease) in net assets resulting from operations	$ 475,834	$ (695,882)	$ 861,253	$ (1,124,486)

See accompanying notes to the unaudited financial statements.

KKR & CO. (GUERNSEY) L.P.

STATEMENTS OF CHANGES IN NET ASSETS (UNAUDITED)
(Amounts in thousands, except common units)

NET ASSETS—DECEMBER 31, 2007	$ 4,982,373
NET DECREASE IN NET ASSETS FROM OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008:	
Net investment loss	(86,174)
Net loss on investments and foreign currency transactions.	(2,281,937)
Net decrease in net assets resulting from operations	(2,368,111)
Partners' capital contributions (issued 352,225 common units)	4,407
NET ASSETS—DECEMBER 31, 2008	2,618,669
NET INCREASE IN NET ASSETS FROM OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009:	
Net investment loss	(38,506)
Net gain on investments and foreign currency transactions.	899,759
Net increase in net assets resulting from operations	861,253
NET ASSETS—SEPTEMBER 30, 2009	$ 3,479,922

See accompanying notes to the unaudited financial statements.

KKR & CO. (GUERNSEY) L.P.

STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in thousands)

	Nine Months Ended	
	September 30, 2009	September 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase (decrease) in net assets resulting from operations	$ 861,253	$ (1,124,486)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to cash and cash equivalents provided by (used in) operating activities:		
Net investment loss allocated from KKR PEI Investments, L.P.	19,510	50,695
Net loss (gain) on investments and foreign currency transactions allocated from KKR PEI Investments, L.P.	(899,759)	1,057,705
Share-based compensation expense.	79	37
Changes in operating assets and liabilities:		
Distribution received from KKR PEI Investments, L.P.	474,148	9,979
Increase in due from affiliate	(164)	—
Increase in other assets	(167)	(138)
Increase in accrued liabilities	14,908	5,909
Decrease in due to affiliate	(1,640)	(930)
Net cash flows provided by (used in) operating activities	468,168	(1,229)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Partners' capital contributions	—	4,407
NET INCREASE IN CASH AND CASH EQUIVALENTS	468,168	3,178
CASH AND CASH EQUIVALENTS—Beginning of period	2,095	452
CASH AND CASH EQUIVALENTS—End of period	$ 470,263	$ 3,630

See accompanying notes to the unaudited financial statements.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. BUSINESS

KKR & Co. (Guernsey) L.P. ("KKR Guernsey"), formerly KKR Private Equity Investors, L.P. ("KPE"), is a Guernsey limited partnership comprised of (i) KKR Guernsey GP Limited (the "Managing Partner"), which holds 100% of the general partner interests in KKR Guernsey, and (ii) the holders of limited partner interests in KKR Guernsey. As of September 30, 2009 and December 31, 2008, KKR Guernsey's limited partner interests consist of one common unit that is held by the Managing Partner and 204,902,225 common units that are held by other limited partners. The common units are non-voting and listed on Euronext Amsterdam by NYSE Euronext ("Euronext Amsterdam"), the regulated market of Euronext Amsterdam N.V. As of October 1, 2009, KPE and KKR completed the previously announced transaction to combine the businesses ("Business Combination") of KPE and KKR & Co. L.P. (together with its applicable affiliates, "KKR").

The Business Combination was consummated on October 1, 2009, and therefore its effects are not included in the presentation of the financial statements as of September 30, 2009 included herein. The financial statements and footnotes do not reflect the results of KKR and are not representative of KKR results going forward.

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

As of September 30, 2009 and before the Business Combination, KKR Guernsey made all of its investments through KKR PEI Investments, L.P. (the "KPE Investment Partnership"), of which it was the sole limited partner. The KPE Investment Partnership invests predominantly in private equity investments identified by KKR. Private equity investments consist of investments in limited partner interests in KKR's private equity funds, co-investments in certain portfolio companies of those funds and investments significantly negotiated by KKR in equity or equity-linked securities, which we refer to as negotiated equity investments. The KPE Investment Partnership makes other investments in opportunistic investments, which are investments identified by KKR in the course of its business other than private equity investments, including public equities and fixed income investments. The KPE Investment Partnership manages cash and liquidity through temporary investments.

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

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

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

The KPE Investment Partnership is a Guernsey limited partnership comprised of (i) KKR PEI Associates, L.P. (the "Associate Investor"), which held 100% of the general partner interests in the KPE Investment Partnership, which represented a 0.2% interest as of September 30, 2009 and December 31, 2008, and (ii) as of September 30, 2009 and before the Business Combination, KKR Guernsey held 100% of the limited partner interests in the KPE Investment Partnership, which represented a 99.8% interest as of September 30, 2009 and December 31, 2008. As the KPE Investment Partnership's sole general partner, the Associate Investor was responsible for managing the business and affairs of the KPE Investment Partnership. Because the Associate Investor was itself a Guernsey limited partnership, its general partner, KKR PEI GP Limited (the "Managing

Investor"), a Guernsey limited company that, prior to the Business Combination, was owned by individuals who are affiliated with KKR, was effectively responsible for managing the KPE Investment Partnership's business and affairs.

The KPE Investment Partnership's limited partnership agreement provided that its investments must comply with the investment policies and procedures that were established from time to time by the Managing Partner's board of directors on behalf of KKR Guernsey. Prior to the Business Combination, KKR Guernsey's investment policies and procedures provided, among other things, that the KPE Investment Partnership would invest at least 75% of its adjusted assets in private equity and temporary investments and no more than 25% of its adjusted assets in opportunistic investments. "Adjusted assets" were defined as the KPE Investment Partnership's consolidated assets less the amount of indebtedness that was recorded as a liability on its consolidated statements of assets and liabilities. As of September 30, 2009, the KPE Investment Partnership had invested 96.2% of its adjusted assets in private equity and temporary investments and 3.8% of its adjusted assets in opportunistic investments. These policies were revised in connection with the Business Combination to permit the investment of any assets in opportunistic investments, subject to certain tax considerations.

Business Combination

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

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

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

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

While KKR Guernsey has retained its listing on Euronext Amsterdam following completion of the Business Combination, KKR has the ability to seek a U.S. listing of the Combined Business in the future on either the New York Stock Exchange or NASDAQ. If KKR does not seek a U.S. listing of the Combined Business during the 12–month period following August 4, 2009, the date on which the conditions precedent to the Business Combination were satisfied, KKR Guernsey has the right to cause the Combined Business to seek a U.S. listing after that time.

Among other actions taken by KKR Guernsey and KKR in connection with the Business Combination, KKR Guernsey entered into an investment agreement, an exchange agreement and tax receivables agreement, which provide for certain rights of KKR Guernsey to cause KKR to use its reasonable best efforts to become listed on a U.S. stock exchange, certain obligations of KKR Guernsey to issue common units in exchange for certain equity interests in KKR, certain payments by KKR Guernsey's intermediate holding company based on certain tax benefits, if any, arising from such exchanges, and other matters. In addition, KKR established a KKR Management Holdings L.P. 2009 Equity Incentive Plan, pursuant to which KKR is authorized to issue awards up to 15% of certain KKR equity interests on a fully converted and diluted basis, subject to adjustment, although no awards have been issued as of November 19, 2009. Descriptions of these and other matters related to the Business Combination are qualified by reference to the disclosure contained in KKR Guernsey's consent solicitation statement dated July 24, 2009, which is available at the Investor Relations page of www.kkr.com.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

As of September 30, 2009, because KKR Guernsey did not hold a controlling interest in the KPE Investment Partnership and because of the exclusion for investment companies in the consolidation of variable interest entities, KKR Guernsey did not consolidate the results of operations, assets or liabilities of the KPE Investment Partnership in its financial statements. However, KKR Guernsey did reflect its proportionate share of the KPE Investment Partnership's net investment income or loss and net gain or loss on investments and foreign currency transactions in its statement of operations. The unaudited consolidated financial statements of the KPE Investment Partnership, including the schedule of its investments, should be read in conjunction with KKR Guernsey's unaudited financial statements.

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

The Managing Partner has reviewed KKR Guernsey's current cash position and its future obligations as of September 30, 2009, and expects KKR Guernsey to continue as a going concern for at least one year. In connection with the Business Combination, KKR acquired all of the assets and all of the liabilities of KKR Guernsey.

KKR Guernsey utilizes a reporting schedule comprised of four three-month quarters with an annual accounting period that ends on December 31. The quarterly periods ended on March 31, June 30, September 30 and December 31. Interim results may not be indicative of our results for a full fiscal year. The financial results presented herein include activity for the quarters and nine months ended September 30, 2009 and September 30, 2008.

As of September 30, 2009, KKR Guernsey operated through one reportable business segment for management reporting purposes.

Valuation of Limited Partner Interests

KKR Guernsey recorded its investment in the KPE Investment Partnership at fair value. Because valuing investments requires the application of valuation principles to the specific facts and circumstances of the investments, in satisfying their responsibilities, the Managing Partner utilized the services of KKR to determine the fair values of certain investments and the services of an independent valuation firm, which performed certain agreed upon procedures with respect to valuations that are prepared by KKR, to confirm that such valuations are not unreasonable. Valuation of investments held by the KPE Investment Partnership is further discussed in the notes to the KPE Investment Partnership's consolidated financial statements.

Fair Value Measurements

KKR Guernsey uses a hierarchal disclosure framework to report the fair value of its investments, which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available quoted prices or for which fair value can be measured from actively quoted prices generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – An unadjusted quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available.

Level II –Inputs are other than unadjusted quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III –Inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

KKR Guernsey's investments in limited partner interests in the KPE Investment Partnership were considered Level III investments, as the investments did not have a readily available market. As such, the investments in limited partner interests were valued by the Managing Partner and recorded at the determined fair value. Such limited partner interests were generally valued at an amount that was equal to the aggregate value of the assets, which were net of any related liabilities, of the KPE Investment Partnership that KKR Guernsey would have received if such assets were sold in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale and the distribution of the net proceeds from such sales were distributed to KKR Guernsey in accordance with the KPE Investment Partnership's limited partnership agreement. This amount was generally expected to be equal to the KPE Investment Partnership's consolidated net asset value as of the valuation date, as adjusted to reflect the allocation of consolidated net assets to the Associate Investor. The KPE Investment Partnership's net asset value was expected to increase or decrease from time to time based on the amount of investment income, operating expenses and realized gains and losses on the sale of investments and related foreign currency transactions, if any, that it recorded and the net changes in the unrealized appreciation and/or depreciation and related foreign currency transactions of its investments.

Because of the inherent uncertainty of the valuation process, the fair value may differ materially from the actual value that would be realized if such investments were sold in an orderly disposition and the resulting net proceeds that would be distributed in accordance with the KPE Investment Partnership's limited partnership agreement.

Cash and Cash Equivalents

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

Concentration of Credit Risk

KKR Guernsey made all of its investments through the KPE Investment Partnership and its only substantial assets were limited partner interests in the KPE Investment Partnership. As of September 30, 2009 and December 31, 2008, KKR Guernsey's cash and cash equivalents were held by one financial institution.

Due from Affiliate

As of September 30, 2009, the amount due from affiliate related to previously estimated reimbursements to KKR.

Other Assets

As of September 30, 2009 and December 31, 2008, other assets were comprised of prepaid insurance payments, which are amortized on a straight-line basis over the related period.

Investment Income

Income was recognized when earned. KKR Guernsey recorded its proportionate share of the KPE Investment Partnership's investment income. In addition, KKR Guernsey recorded its own investment income, which was comprised of interest income related to cash management activities during the quarters and nine months ended September 30, 2009 and September 30, 2008.

General and Administrative Expenses

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

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

Share-Based Compensation Expense

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

Taxes

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

Distribution Policy

Under KKR Guernsey's limited partnership agreement, distributions to unitholders were made only as determined by the Managing Partner in its sole discretion. No distributions were made to unitholders during the nine months ended September 30, 2009.

KKR Guernsey intends to distribute to holders of KKR Guernsey units all or substantially all of the distributions that KKR Guernsey receives from KKR Group Holdings L.P. The actual amount and timing of distributions are subject to the discretion of the Managing Partner's board of directors and the amount of distributions, if any, made by KKR, and there can be no assurance that distributions will be made as intended or at all.

Guarantees

At the inception of the issuance of guarantees, if any, KKR Guernsey would have recorded the fair value of the guarantee as a liability, with the offsetting entry being recorded based on the circumstances in which the guarantee was issued. KKR Guernsey did not have any such guarantees in place as of September 30, 2009 or December 31, 2008.

Subsequent Events

KKR Guernsey evaluated subsequent events from October 1, 2009 through November 19, 2009, the date the financial statements were issued.

Recently Issued Accounting Pronouncements

Measuring Fair Value

In September 2006, the FASB issued Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosure* (formerly SFAS No. 157, *Fair Value Measurements*). SFAS No. 157 (ASC 820) defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 (ASC 820) applied to reporting periods beginning after November 15, 2007. KKR Guernsey adopted SFAS No. 157 (ASC 820) during the first quarter of 2008. SFAS No. 157 (ASC 820) did not have a material impact on the financial statements of KKR Guernsey.

In October 2008, the FASB issued ASC 820 (formerly FASB Staff Position No. 157-3 (FSP No. 157-3), *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*). FSP No. 157-3 (ASC 820) clarifies the application of SFAS No. 157 (ASC 820) in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for the financial asset is not active. KKR Guernsey adopted FSP No. 157-3 (ASC 820) during the quarter ended December 31, 2008. FSP No. 157-3 (ASC 820) did not have a material impact on KKR Guernsey's financial statements.

In April 2009, the FASB issued ASC 820 (formerly FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly*). FSP No. 157-4 (ASC 820) provides additional guidance for estimating fair value in accordance with SFAS No. 157 (ASC 820) when the volume and level of activity for the asset or liability have significantly decreased. FSP No. 157-4 (ASC 820) also includes guidance on identifying circumstances that indicate a transaction is not orderly. KKR Guernsey adopted FSP No. 157-4 (ASC 820) during the quarter ended June 30, 2009. FSP No. 157-4 (ASC 820) did not have a material impact on the financial statements of KKR Guernsey.

In September 2009, the FASB issued Accounting Standards Update (ASU) 2009-12 to provide guidance on measuring the fair value of certain alternative investments. The ASU amends ASC 820 to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value per share (NAV). ASU 2009-12 is effective for the first reporting period ending after December 15, 2009; however, early adoption is permitted. KKR Guernsey is evaluating the impact of ASU 2009-12 on its financial statements.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued ASC 470-20-25-21, *Fair Value Option* (formerly SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*). SFAS No. 159 (ASC 470-20-25-21) permits entities to choose to measure many financial instruments and certain other items at fair value, with changes in fair value recognized in earnings. KKR Guernsey adopted SFAS No. 159 (ASC 470-20-25-21) during the first quarter of 2008. SFAS No. 159 did not have a material impact on the financial statements of KKR Guernsey.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued ASC 815, *Derivatives and Hedging* (formerly SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*). SFAS No. 161 (ASC 815) requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. KKR Guernsey adopted SFAS No. 161 (ASC 815) on January 1, 2009. SFAS No. 161 (ASC 815) did not have a material impact on the financial statements of KKR Guernsey.

Subsequent Events

In May 2009, the FASB issued ASC 855, *Subsequent Events* (formerly SFAS No. 165, *Subsequent Events*). SFAS No. 165 (ASC 855) establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. SFAS No. 165 (ASC 855) requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. KKR Guernsey adopted SFAS No. 165 (ASC 855) during the quarter ended June 30, 2009. SFAS No. 165 (ASC 855) did not have a material impact on the financial statements of KKR Guernsey.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. SFAS No. 167 requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. As of November 11, 2009 the FASB tentatively deferred the effective date of SFAS No. 167 (previously effective at the beginning of annual reporting periods that began after November 15, 2009). Because KKR Guernsey does not hold a controlling interest in the KPE Investment Partnership and because of the exclusion for investment companies included in FIN 46, *Consolidation of Variable Interest Entities*, as amended by FIN 46(R), as amended by SFAS No. 167, KKR Guernsey does not expect SFAS No. 167 to have a material impact on its financial statements.

FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued ASC 105, *GAAP Hierarchy* (formerly SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*). SFAS No. 162 (ASC 105) identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS No. 162 (ASC 105) was effective November 13, 2008. SFAS No. 162 (ASC 105) was replaced by SFAS No. 168, *FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162,* (ASC 105) in June 2009.

SFAS No. 168 (ASC 105) identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP and establishes the *FASB Accounting Standards Codification*™ as the source of authoritative accounting principles recognized by the FASB. KKR Guernsey adopted SFAS No. 168 during the quarter ended September 30, 2009. SFAS No. 168 did not have a material impact on the financial statements of KKR Guernsey.

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

Although investments made with KKR Guernsey's capital by the KPE Investment Partnership did not appear as direct investments in KKR Guernsey's financial statements, KKR Guernsey was directly affected by the overall performance of these investments.

KKR Guernsey's investment in the KPE Investment Partnership consisted of limited partner interests that were not registered under the U.S. Securities of Act of 1933, as amended (the "Act"). KKR Guernsey did not have the right to demand the registration of these limited partner interests under the Act.

In connection with the Business Combination that was completed on October 1, 2009, KKR Guernsey's investment in limited partner interests of the KPE Investment Partnership was contributed to the Combined Business. As of October 1, 2009, KKR Guernsey's sole investment consisted of limited partner interests in KKR Group Holdings L.P., which represents 30% of the outstanding equity in the Combined Business.

4. FAIR VALUE MEASUREMENTS

As of September 30, 2009 and December 31, 2008, the fair value of KKR Guernsey's cash and cash equivalents was $470.3 million and $2.1, respectively, and was classified as Level I.

As of September 30, 2009 and December 31, 2008, KKR Guernsey's investments in limited partner interests in the KPE Investment Partnership were valued at $3,029.1 million and $2,623.0 million, respectively, which represented 86.6% and 99.9%, respectively, of KKR Guernsey's investments. The fair value of such investments was estimated by the Managing Partner in the absence of readily determinable fair values and was classified as Level III.

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

Fair value of limited partner interests as of December 31, 2008	$ 2,622,970
Distributions from the KPE Investment Partnership	(474,148)
Allocations from the KPE Investment Partnership:	
Net investment loss	(19,510)
Net realized loss on investments	(78,401)
Net unrealized gain on investments and foreign currency transactions	978,160
Fair value of limited partner interests as of September 30, 2009	$ 3,029,071

KKR Guernsey did not hold any Level II category investments.

5. LIABILITIES

As of September 30, 2009 and December 31, 2008, accrued liabilities of $19.9 million and $4.9 million, respectively, were comprised of accrued professional fees related to the Business Combination, payments owed to vendors for services provided to KKR Guernsey in the normal course of business and fees and expenses of the Managing Partner's board of directors.

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

6. COMMON UNITS

Upon completion of the initial offering and related transactions, KKR Guernsey had 204,550,001 common units outstanding. The transactions related to the initial offering and related transactions resulted in aggregate net proceeds to KKR Guernsey of $4,830.1 million. On March 31, 2008, KKR Guernsey issued 352,225 common units to an affiliate of KKR in accordance with the investment agreement at a price of $12.51 per unit, resulting in total proceeds of $4.4 million. As of September 30, 2009, KKR Guernsey had 204,902,226 common units outstanding.

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

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

7. DISTRIBUTABLE EARNINGS (LOSS)

Distributable earnings (loss) were comprised of the following, with amounts in thousands:

Distributable earnings as of December 31, 2007	$ 152,263
Net decrease in net assets resulting from operations during the year ended December 31, 2008	(2,368,111)
Distributable loss as of December 31, 2008	(2,215,848)
Net increase in net assets resulting from operations during the nine months ended September 30, 2009	861,253
Distributable loss as of September 30, 2009	$ (1,354,595)

As of September 30, 2009 and December 31, 2008, the accumulated undistributed net investment income was $20.8 million and $59.3 million, respectively. The accumulated undistributed net realized gain (loss) on investments and foreign currency transactions was a loss of $35.0 million as of September 30, 2009 and a gain of $43.4 million as of December 31, 2008. The accumulated undistributed net unrealized depreciation on investments and foreign currency transactions was $1,252.5 million and $2,230.6 million as of September 30, 2009 and December, 31, 2008, respectively.

8. STOCK APPRECIATION RIGHTS

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

As of September 30, 2009, 190,581 SARs were granted to key service providers at a base value not less than the closing price of common units on the date of grant. The weighted average grant date exercise price and fair value of SARs granted was $5.85 and $2.20, respectively. The SARs were scheduled to vest over a four year period and to have a term not longer than ten years from the date of grant. As of September 30, 2009, a total of 16,874 SARs were vested.

During the nine months ended September 30, 2009 and September 30, 2008, the SARs resulted in share-based compensation expense of less than $0.1 million during each respective period. As of September 30, 2009, there was approximately $0.3 million of total unrecognized compensation cost related to unvested share-based compensation awards granted under the Plan, which did not include the effect of future grants of equity compensation, if any.

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

9. RELATIONSHIP WITH KKR AND RELATED-PARTY TRANSACTIONS

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

Subject to the supervision of the board of directors of the Managing Partner and the board of directors of the Managing Investor, KKR assisted KKR Guernsey and the KPE Investment Partnership in selecting, evaluating, structuring, diligencing, negotiating, executing, monitoring and exiting investments and managing uninvested capital and also provides financial, legal, tax, accounting and other administrative services. These investment activities were carried out by KKR's investment professionals and KKR's investment committee pursuant to the services agreement or under investment management agreements between KKR and its investment funds.

Services Agreement

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

The services agreement contains certain provisions requiring KKR Guernsey and the other service recipients to indemnify KKR and its affiliates with respect to all losses or damages arising from acts not constituting bad faith, willful misconduct or gross negligence. The Managing Partner evaluated the impact of these guarantees on the financial statements and determined that they were not material as of September 30, 2009.

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

Management Fees

Under the services agreement, KKR Guernsey and the other service recipients jointly and severally agreed to pay KKR a management fee, quarterly in arrears, in an aggregate amount equal to (prior to the Business Combination) one-fourth of the sum of:

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

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

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

For the purposes of calculating the management fee under the services agreement, "equity" was defined as the sum of the net proceeds in cash or otherwise from each issuance of KKR Guernsey's limited partner interests, after deducting any managers' commissions, placement fees and other expenses relating to the initial offering and related transactions, plus or minus KKR Guernsey's cumulative distributable earnings or loss at the end of such quarterly period (taking into account actual distributions but without taking into account the management fee relating to such quarterly period and any non-cash equity compensation expense incurred in current or prior periods), as reduced by any amount that KKR Guernsey paid for repurchases of KKR Guernsey's limited partner interests. The foregoing calculation of "equity" was adjusted to exclude (i) one-time events pursuant to changes in U.S. GAAP as well as (ii) any non-cash items jointly agreed to by the Managing Partner (with the approval of a majority of its independent directors) and KKR.

The management fee payable under the services agreement was reduced by an amount equal to the sum of (i) any cash that KKR Guernsey and the other service recipients, as limited partners of KKR's investment funds, paid to KKR or its affiliates during such period in respect of management fees of such funds (or capital that KKR Guernsey contributes to KKR's investment funds for such purposes), regardless of whether such management fees were received by KKR in the form of a management fee or otherwise and (ii) management fees, if any, that KKR Guernsey may have paid third parties in the future in connection with the service recipients' investments.

To the extent that the amount of management fee reductions in respect of a particular quarterly period exceeded the amount of the fee that would have otherwise been payable, KKR was required to credit the difference against any future management fees that became payable under the services agreement. Under no circumstances, however, did credited amounts reimbursed by KKR reduce the management fee payable in respect of any quarterly period below zero.

The management fee payable under the services agreement was not subject to reduction based on any other fees that KKR or its affiliates received in connection with KKR Guernsey's investments, including any transaction or monitoring fees that were paid by a third party. In addition, the management fee was not reduced if the Managing Partner determined, in good faith, that a reduction in the management fee would have jeopardized the classification of KKR Guernsey as a partnership for U.S. federal income tax purposes and is only allowable until expenses incurred in connection with KKR Guernsey's initial offering and related transactions are recouped through profits.

During the quarters and nine months ended September 30, 2009 and September 30, 2008, KKR Guernsey did not make any payments or accrue any liabilities related to the management fee; however, the KPE Investment Partnership recorded management fee expense of $10.6 million and $28.2 million during the quarter and nine months ended September 30, 2009, respectively and $11.6 million and $38.3 million during the quarter and nine months ended September 30, 2008, respectively.

As of October 1, 2009, the management fee was amended to reflect the terms of the Business Combination.

Carried Interests and Incentive Distributions

Each investment made by the KPE Investment Partnership is subject to either a carried interest or incentive distribution right, which generally entitles the Associate Investor or an affiliate of KKR to receive a portion of the profits generated by the investment. However, until the profits on the KPE Investment Partnership's consolidated investments that were subject to a carried interest or incentive distribution right equaled the managers' commissions, placement fees and other expenses incurred in connection with the initial offering and related transactions, (i) the Associate Investor had to forego its carried interests and incentive distribution rights on opportunistic investments, temporary investments, co-investments and negotiated equity investments and (ii) the management fee payable under the services agreement was reduced by the amount of carried interests and incentive distributions made pursuant to the terms of the investment funds in which the KPE Investment Partnership was invested, limited to 5% of KKR Guernsey's gross income (other than income that qualified as capital gains) for U.S. federal income tax purposes for a taxable year minus any gross income earned by or allocated to KKR Guernsey for U.S. federal income tax purposes during such taxable year that was not "qualifying income" as defined in Section 7704(d) of the U.S. Internal Revenue Code. This recoupment through profits of expenses incurred in connection with KKR Guernsey's initial offering and related transaction was terminated on October 1, 2009.

As of September 30, 2009, managers' commissions, placement fees and other expenses incurred in connection with the initial offering and related transactions exceeded the amount of profits related to the carried interests and incentive distribution rights payable on certain of the KPE Investment Partnership's consolidated investments. Therefore, no carried interests or incentive distributions based on opportunistic investments, temporary investments, co-investments or negotiated equity investments were payable to the Associate Investor as of September 30, 2009.

Reimbursed Expenses

During the quarter and nine months ended September 30, 2009, KKR Guernsey paid KKR $0.9 million and $3.8 million, respectively, for reimbursable direct expenses incurred pursuant to the services agreement. During the quarter and nine months ended September 30, 2008, KKR Guernsey paid KKR $0.8 million and $3.2 million, respectively, for such expenses. These reimbursed expenses were included in KKR Guernsey's general and administrative expenses.

Investment Agreement

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

Under this investment agreement, KKR agreed to cause each affiliate of KKR that acquired common units or RDUs pursuant to this investment agreement to enter into a three-year lock-up agreement with respect to the units acquired.

Upon completion of the Business Combination, this investment agreement was terminated.

License Agreement

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

Other

One or more investment funds managed by KKR have an opportunity to invest from time to time in KKR Guernsey's common units including certain funds that may raise capital over time. As part of their strategy, these funds may invest in KKR Guernsey in accordance with certain investment parameters and also may invest additional capital in other KKR funds and KKR investments as part of their investment objectives. Purchases and sales of KKR Guernsey's common units are expected to be made through open market transactions over Euronext Amsterdam or in privately negotiated transactions, based on market conditions, the investment strategies of such funds, capital available to such funds and other factors considered relevant. KKR's traditional private equity funds are not among the funds that may invest in KKR Guernsey's common units. These investments would not be made by KKR Guernsey or any entities in which it invests, and they would not reduce the number of common units that KKR Guernsey has outstanding. As of September 30, 2009, funds managed by KKR owned 4,667,166 of KKR Guernsey's common units or 2.3% of common units outstanding.

As of September 30, 2009, the directors of the Managing Partner had no direct personal interest in the limited partner interests of the KPE Investment Partnership.

During the quarter and nine months ended September 30, 2009, KKR Guernsey did not have any meaningful investment transactions, not including cash management activities, and thus none of KKR Guernsey's investment transaction volume may be deemed to have been with an affiliate. Accordingly, there were no associated transaction costs.

The KPE Investment Partnership, however, sold interests in certain co-investments to a KKR sponsored co-investment fund with an aggregate fair value of $211.0 million as of March 31, 2009, after giving effect to certain post-closing adjustments. Such interests in co-investments had an original cost of $240.3 million and were sold for an aggregate purchase price of $200.4 million, resulting in a realized loss of $39.9 million during the nine months ended September 30, 2009.

During the nine months ended September 30, 2009, KKR Corporate Capital Services LLC, a subsidiary of KKR, acquired a $64.8 million commitment to the KPE Investment Partnership's Credit Agreement from an existing lender.

10. FINANCIAL HIGHLIGHTS

Financial highlights for KKR Guernsey were as follows, with amounts in thousands, except per unit and percentage amounts:

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Per unit operating performance:				
Net asset value at the beginning of the period	$ 14.66	$ 22.25	$ 12.78	$ 24.36
Adjustment to beginning net asset value for units issued during the period	—	—	—	(0.05)
	14.66	22.25	12.78	24.31
Income (loss) from investment operations:				
Net investment loss	(0.06)	(0.14)	(0.19)	(0.32)
Net gain (loss) on investments and foreign currency transactions	2.38	(3.26)	4.39	(5.16)
Total from investment operations	2.32	(3.40)	4.20	(5.48)
Capital contributions	—	—	—	0.02
Net asset value at the end of the period	$ 16.98	$ 18.85	$ 16.98	$ 18.85
Total return (annualized)	62.8%	(60.8)%	44.0%	(30.2)%
Percentages and supplemental data:				
Net assets at the end of the period	$ 3,479,922	$ 3,862,294	$ 3,479,922	$ 3,862,294
Ratios to average net assets:				
Total expenses (annualized)	4.4%	3.5%	3.3%	3.2%
Net investment loss (annualized)	(1.4)	(2.6)	(1.7)	(2.0)

The total return and ratios were calculated based on weighted average net assets.

11. CONTINGENCIES

As with any partnership, KKR Guernsey may become subject to claims and litigation arising in the ordinary course of business. The Managing Partner does not believe that there were any pending or threatened legal proceedings that would have had a material adverse effect on the financial position, operating results or cash flows of KKR Guernsey as of September 30, 2009.

12. SUBSEQUENT EVENTS

On October 1, 2009, in connection with the Business Combination, KKR Guernsey transferred all of its assets and liabilities to KKR, including $470.3 million of cash and cash equivalents, in exchange for 100% of the limited partner interests of KKR Group Holdings L.P., which represents a 30% economic interest in KKR's business and is now KKR Guernsey's sole investment. See Note 1, "Business – Business Combination."

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UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

INDEX TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Page
Unaudited Consolidated Statements of Assets and Liabilities as of September 30, 2009 and December 31, 2008	F-20
Unaudited Consolidated Schedule of Investments as of September 30, 2009	F-21
Unaudited Consolidated Schedule of Investments as of December 31, 2008	F-23
Unaudited Consolidated Schedule of Securities Sold, Not Yet Purchased as of December 31, 2008	F-24
Unaudited Consolidated Statements of Operations for the Quarters and Nine Months Ended September 30, 2009 and September 30, 2008	F-25
Unaudited Consolidated Statements of Changes in Net Assets for the Year Ended December 31, 2008 and the Nine Months Ended September 30, 2009	F-26
Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and September 30, 2008	F-27
Notes to the Unaudited Consolidated Financial Statements	F-29

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (UNAUDITED)
(Amounts in thousands)

	September 30, 2009	December 31, 2008
ASSETS:		
Investments, at fair value:		
Opportunistic investments—Class A (cost of $0 and $84,852, respectively)	$ —	$ 41,181
Co-investments in portfolio companies of private equity funds—Class B (cost of $2,423,281 and $2,663,611, respectively)	1,629,088	1,414,743
Negotiated equity investments—Class B (cost of $992,582 and $992,582, respectively)	796,458	649,155
Private equity funds—Class C (cost of $1,792,712 and $1,683,609, respectively)	1,567,542	1,184,958
Non-private equity fund—Class D (cost of $144,128 and $161,148, respectively)	114,875	62,583
	4,107,963	3,352,620
Cash and cash equivalents	289,366	623,316
Cash and cash equivalents held by a non-private equity fund	2	88
Restricted cash	8,514	18,011
Unrealized gain on a foreign currency exchange contract	—	3,000
Other assets	3,979	7,689
Total assets	4,409,824	4,004,724
LIABILITIES:		
Accrued liabilities	44,060	37,691
Due to affiliates	4,539	2,864
Securities sold, not yet purchased (proceeds of $0 and $1,785, respectively)	—	1,916
Unrealized loss on foreign currency exchange contracts and an interest rate swap	26,628	32,331
Other liabilities	—	117
Revolving credit agreement	948,997	951,214
Long-term debt	350,000	350,000
Total liabilities	1,374,224	1,376,133
COMMITMENTS AND CONTINGENCIES	—	—
NET ASSETS	$ 3,035,600	$ 2,628,591
NET ASSETS CONSIST OF:		
Partners' capital contributions	$ 4,836,568	$ 4,836,568
Distributable loss	(1,800,968)	(2,207,977)
	$ 3,035,600	$ 2,628,591

See accompanying notes to the unaudited consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED)
(Amounts in thousands, except percentage amounts)

Investment	Class	Cost (September 30, 2009)	Fair Value (September 30, 2009)	Fair Value as a Percentage of Net Assets (September 30, 2009)
INVESTMENTS BY TYPE:				
Opportunistic investments	A	$ —	$ —	—%
Co-investments in portfolio companies of private equity funds:	B			
Dollar General Corporation		214,686	407,904	13.4
HCA Inc.		201,444	342,454	11.3
Alliance Boots GmbH		301,352	239,694	7.9
The Nielsen Company B.V.		156,839	156,839	5.2
Biomet, Inc.		151,443	136,299	4.5
Energy Future Holdings Corp.		200,000	100,000	3.3
First Data Corporation		135,258	81,155	2.7
U.S. Foodservice, Inc.		100,000	80,000	2.6
PagesJaunes Groupe S.A.		235,201	38,487	1.3
NXP B.V.		250,000	25,000	0.8
KION Group GmbH		112,824	12,551	0.4
ProSiebenSat.1 Media AG		226,913	8,705	0.3
Capmark Financial Group Inc.		137,321	—	—
		2,423,281	1,629,088	53.7
Negotiated equity investments:	B			
Sun Microsystems, Inc. convertible senior notes		701,164	647,500	21.3
Orient Corporation convertible preferred stock		169,706	148,958	4.9
Aero Technical Support & Services S.à r.l. (Aveos)		121,712	—	—
		992,582	796,458	26.2
Private equity funds:	C			
KKR 2006 Fund L.P.		1,164,592	1,038,564	34.2
KKR European Fund, Limited Partnership		199,360	184,287	6.0
KKR Millennium Fund L.P.		203,217	166,389	5.5
KKR Asian Fund L.P.		116,530	114,303	3.8
KKR European Fund II, Limited Partnership		96,672	55,103	1.8
KKR European Fund III, Limited Partnership		12,341	8,896	0.3
		1,792,712	1,567,542	51.6
Non-private equity funds – Investments by KKR Strategic Capital Institutional Fund, Ltd.	D	144,128	114,875	3.8
		$ 5,352,703	$ 4,107,963	135.3%

Continued on the following page.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED), CONTINUED
(Amounts in thousands, except percentage amounts)

Investment	September 30, 2009 Cost	Fair Value	Fair Value as a Percentage of Net Assets
INVESTMENTS BY GEOGRAPHY :			
North America	$ 3,311,382	$ 3,022,529	99.6%
Europe	1,661,733	716,838	23.6
Asia Pacific	379,588	368,596	12.1
	$ 5,352,703	$ 4,107,963	135.3%
INVESTMENTS BY INDUSTRY :			
Health Care	$ 979,267	$ 1,039,936	34.3%
Technology	1,182,289	894,979	29.5
Retail	594,495	770,234	25.4
Financial Services	845,829	492,607	16.2
Media/Telecom	770,914	317,301	10.4
Energy	397,558	226,523	7.4
Industrial	438,176	196,164	6.5
Consumer Products	125,004	125,248	4.1
Chemicals	19,171	44,971	1.5
	$ 5,352,703	$ 4,107,963	135.3%

See accompanying notes to the unaudited consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED)
(Amounts in thousands, except percentage amounts)

Investment	Class	Cost	Fair Value	Fair Value as a Percentage of Net Assets
		December 31, 2008		
INVESTMENTS BY TYPE:				
Opportunistic investments:	A			
Fixed income investments		$ 83,215	$ 40,109	1.5 %
Public equities – common stocks		1,637	1,072	0.0
		84,852	41,181	1.5
Co-investments in portfolio companies of private equity funds:	B			
Dollar General Corporation		250,000	275,000	10.5
HCA Inc.		250,000	200,000	7.6
The Nielsen Company B.V.		200,000	180,000	6.8
Alliance Boots GmbH		301,352	175,123	6.7
Biomet, Inc.		200,000	160,000	6.1
Energy Future Holdings Corp.		200,000	140,000	5.3
First Data Corporation		200,000	120,000	4.6
U.S. Foodservice, Inc.		100,000	80,000	3.0
NXP B.V.		250,000	25,000	1.0
KION Group GmbH		112,824	23,961	0.9
ProSiebenSat.1 Media AG		226,913	22,159	0.8
Capmark Financial Group Inc.		137,321	13,500	0.5
PagesJaunes Groupe S.A.		235,201	—	—
		2,663,611	1,414,743	53.8
Negotiated equity investments:	B			
Sun Microsystems, Inc. convertible senior notes		701,164	500,500	19.0
Orient Corporation convertible preferred stock		169,706	148,655	5.7
Aero Technical Support & Services S.à r.l. (Aveos)		121,712	—	—
		992,582	649,155	24.7
Private equity funds:	C			
KKR 2006 Fund L.P.		1,105,787	821,234	31.2
KKR Millennium Fund L.P.		203,718	132,084	5.0
KKR European Fund, Limited Partnership		202,115	128,298	4.9
KKR Asian Fund L.P.		66,057	49,259	1.9
KKR European Fund II, Limited Partnership		96,955	49,032	1.9
KKR European Fund III, Limited Partnership		8,977	5,051	0.2
		1,683,609	1,184,958	45.1
Non-private equity funds – Investments by KKR Strategic Capital Institutional Fund, Ltd.	D	161,148	62,583	2.4
		$ 5,585,802	$ 3,352,620	127.5 %

Continued on the following page.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED), CONTINUED
(Amounts in thousands, except percentage amounts)

Investment	December 31, 2008 Cost	Fair Value	Fair Value as a Percentage of Net Assets
INVESTMENTS BY GEOGRAPHY :			
North America	$ 3,596,303	$ 2,521,953	95.9%
Europe	1,656,846	554,227	21.1
Asia Pacific	332,653	276,440	10.5
	$ 5,585,802	$ 3,352,620	127.5%
INVESTMENTS BY INDUSTRY :			
Health Care	$ 1,079,698	$ 773,065	29.4%
Technology	1,124,591	624,850	23.8
Retail	625,548	561,093	21.3
Financial Services	947,595	540,861	20.6
Media/Telecom	889,276	329,742	12.5
Energy	371,414	259,161	9.9
Industrial	436,989	187,043	7.1
Consumer Products	91,520	59,194	2.2
Chemicals	19,171	17,611	0.7
	$ 5,585,802	$ 3,352,620	127.5%

See accompanying notes to the unaudited consolidated financial statements.

CONSOLIDATED SCHEDULE OF SECURITIES SOLD, NOT YET PURCHASED (UNAUDITED)
(Amounts in thousands)

Instrument Type/Geography/Industry	December 31, 2008 Fair Value	Proceeds
Asia Pacific - public equities, common stock:		
Index	$ 1,916	$ 1,785
	$ 1,916	$ 1,785

See accompanying notes to the unaudited consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(Amounts in thousands)

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Investment income:				
Interest income	$ 5,152	$ 9,636	$ 12,945	$ 31,663
Dividend income, net of withholding taxes of $7,510, $85, $7,510 and $334, respectively	19,165	199	24,362	8,955
Total investment income	24,317	9,835	37,307	40,618
Expenses:				
Management fees	10,603	11,560	28,244	38,298
Interest expense	7,815	11,351	25,840	48,775
Dividend expense	—	194	—	1,090
General and administrative expenses	1,262	567	2,713	3,178
Total expenses	19,680	23,672	56,797	91,341
Net investment income (loss)	4,637	(13,837)	(19,490)	(50,723)
Realized and unrealized gain (loss) from investments and foreign currency:				
Net realized gain (loss), net of withholding tax (benefit) of $0, $0, $0 and $(37), respectively	5,301	(19,722)	(78,565)	(58,324)
Net change in unrealized appreciation (depreciation)	482,914	(650,315)	980,194	(1,001,580)
Net gain (loss) on investments and foreign currency transactions	488,215	(670,037)	901,629	(1,059,904)
Net increase (decrease) in net assets resulting from operations	$ 492,852	$ (683,874)	$ 882,139	$ (1,110,627)

See accompanying notes to the unaudited consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (UNAUDITED)
(Amounts in thousands)

	General Partner	Limited Partner	Total
NET ASSETS—DECEMBER 31, 2007	$ 10,445	$ 4,984,533	$ 4,994,978
DECREASE IN NET ASSETS FROM OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008:			
Net investment loss	(47)	(64,657)	(64,704)
Net realized loss on investments and foreign currency transactions	(217)	(104,356)	(104,573)
Net change in unrealized depreciation on investments and foreign currency transactions	(4,529)	(2,177,581)	(2,182,110)
Net decrease in net assets resulting from operations	(4,793)	(2,346,594)	(2,351,387)
Fair value of distributions	(31)	(14,969)	(15,000)
DECREASE IN NET ASSETS	(4,824)	(2,361,563)	(2,366,387)
NET ASSETS—DECEMBER 31, 2008	5,621	2,622,970	2,628,591
INCREASE IN NET ASSETS FROM OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009:			
Net investment income (loss)	20	(19,510)	(19,490)
Net realized loss on investments and foreign currency transactions	(164)	(78,401)	(78,565)
Net change in unrealized appreciation on investments and foreign currency transactions	2,034	978,160	980,194
Net increase in net assets resulting from operations	1,890	880,249	882,139
Fair value of distributions	(982)	(474,148)	(475,130)
INCREASE IN NET ASSETS	908	406,101	407,009
NET ASSETS—SEPTEMBER 30, 2009	$ 6,529	$ 3,029,071	$ 3,035,600

See accompanying notes to the unaudited consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in thousands)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase (decrease) in net assets resulting from operations	$ 882,139	$ (1,110,627)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to cash and cash equivalents provided by operating activities:		
Amortization of deferred financing costs	826	652
Net realized loss on investments	78,565	58,324
Net change in unrealized depreciation (appreciation) on investments	(977,490)	1,022,351
Increase in net unrealized loss on foreign currency exchange contracts and an interest rate swap	(2,704)	(20,771)
Changes in operating assets and liabilities:		
Purchase of opportunistic investments	—	(78,567)
Purchase of securities to settle short sales	(35,823)	(214,458)
Settlement of futures contracts	(3,856)	—
Purchase of options	—	(5,884)
Purchase of investments by private equity funds	(112,642)	(208,969)
Purchase of investments by a non-private equity fund	(50,295)	(14,249)
Proceeds from the sale of opportunistic investments	47,519	357,417
Proceeds from securities sold, not yet purchased	32,686	240,856
Proceeds from options written	—	2,529
Proceeds from the termination of a transaction under a forward foreign exchange contract	6,078	—
Proceeds from the sale of interests in co-investments	200,399	—
Proceeds from the sale of investments by private equity funds	8,486	321,787
Proceeds from the sale of investments by a non-private equity fund	44,805	2,400
Decrease in cash and cash equivalents held by a non-private equity fund	86	40
Decrease in restricted cash	9,497	21,154
Decrease in other assets	3,814	1,118
Increase in accrued liabilities	6,370	21,168
Increase (decrease) in due to affiliates	1,675	(6,849)
Decrease in other liabilities	(117)	(11)
Net cash flows provided by operating activities	140,018	389,411

Continued on the following page.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED), CONTINUED
(Amounts in thousands)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on borrowings under the revolving credit agreement	(253,488)	(492,157)
Borrowings under the revolving credit agreement	245,000	—
Deferred financing costs related to the revolving credit agreement	(930)	—
Distributions to partners	(475,130)	(10,000)
Net cash flows used in financing activities	(484,548)	(502,157)
Effect of foreign exchange rate changes on cash	10,580	—
NET DECREASE IN CASH AND CASH EQUIVALENTS	(333,950)	(112,746)
CASH AND CASH EQUIVALENTS—Beginning of period	623,316	255,415
CASH AND CASH EQUIVALENTS—End of period	$ 289,366	$ 142,669
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 18,731	$ 40,127
SUPPLEMENTAL NON-CASH ACTIVITIES:		
Increase (decrease) in the revolving credit agreement - foreign currency adjustments	$ 11,081	$ (6,764)

See accompanying notes to the unaudited consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS

KKR PEI Investments, L.P. (the "KPE Investment Partnership") is a Guernsey limited partnership that was comprised of (i) as of September 30, 2009 and prior to the Business Combination[1], KKR PEI Associates, L.P. (the "Associate Investor"), which held 100% of the general partner interests in the KPE Investment Partnership and was responsible for managing its business and affairs, and (ii) KKR & Co. (Guernsey) L.P. ("KKR Guernsey"), formerly KKR Private Equity Investors, L.P. ("KPE"), which, as of September 30, 2009, held 100% of the limited partner interests in the KPE Investment Partnership and did not participate in the management of the business and affairs of the KPE Investment Partnership. The general partner interests and the limited partner interests represented 0.2% and 99.8%, respectively, of the total interests in the KPE Investment Partnership as of September 30, 2009 and December 31, 2008. Because the Associate Investor was itself a Guernsey limited partnership, its general partner, KKR PEI GP Limited (the "Managing Investor"), a Guernsey limited company that, prior to the Business Combination, was owned by individuals affiliated with KKR & Co. L.P. (together with its applicable affiliates, "KKR"), was effectively responsible for managing the KPE Investment Partnership's business and affairs.

The Business Combination was consummated on October 1, 2009, and therefore its effects are not included in the presentation of the financial statements as of September 30, 2009 included herein. The financial statements and footnotes do not reflect the results of KKR and are not representative of KKR results going forward.

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

The KPE Investment Partnership's limited partnership agreement provided that its investments must comply with the investment policies and procedures that were established from time to time by the board of directors of KKR Guernsey's general partner (the "Managing Partner"). As of September 30, 2009 and prior to the Business Combination, the investment policies and procedures provided, among other things, that the KPE Investment Partnership would invest at least 75% of its adjusted assets in private equity and temporary investments and no more than 25% of its adjusted assets in opportunistic investments**.** "Adjusted assets" were defined as the KPE Investment Partnership's consolidated assets less the amount of indebtedness that was recorded as a liability on its consolidated statements of assets and liabilities. As of September 30, 2009, the KPE Investment Partnership had invested 96.2% of its adjusted assets in private equity and temporary investments and 3.8% of its adjusted assets in opportunistic investments. These policies were revised in connection with the Business Combination to permit the investment of any assets in opportunistic investments, subject to certain tax consolidations.

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[1] As of October 1, 2009, KPE and KKR completed the previously announced transaction to combine the businesses ("Business Combination") of KPE and KKR & Co. L.P. (together with its applicable affiliates, "KKR").

The KPE Investment Partnership's limited partnership agreement established four separate and distinct classes of partner interests with separate rights and obligations, as follows:

	Type of Investments Held by the KPE Investment Partnership
Class A	Opportunistic and temporary investments
Class B	Co-investments in portfolio companies of KKR's private equity funds and negotiated equity investments
Class C	KKR's private equity funds
Class D	KKR's investment funds that are not private equity funds

The Associate Investor may, in its sole discretion, allocate assets and liabilities of the KPE Investment Partnership to the relevant class of interests in accordance with the terms and conditions of the limited partnership agreement. The Managing Investor is effectively responsible for making any such allocations, because the General Partner is itself a limited partnership.

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

On October 1, 2009, the transaction to combine the businesses of KKR Guernsey and KKR ("Combined Business") whereby KKR Guernsey received interests representing 30% of the outstanding equity in the Combined Business and the balance of the equity is owned by KKR's existing owners and other principals became effective. In connection with the Business Combination, KPE changed its name to KKR Guernsey and the limited partner interests held by KKR Guernsey in the KPE Investment Partnership were contributed to the Combined Business. KKR Management Holdings L.P., a Delaware limited partnership, and KKR Fund Holdings L.P., a Cayman limited partnership (collectively the "KKR Group Partnerships"), which together own the Combined Business acquired all outstanding non-controlling interests in the KPE Investment Partnership, which became a wholly-owned subsidiary of the KKR Group Partnerships upon completion of the Business Combination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the KPE Investment Partnership were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are presented in U.S. dollars. The consolidated financial statements include the financial statements of the KPE Investment Partnership and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The KPE Investment Partnership utilizes the U.S. dollar as its functional currency.

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

The Managing Investor has reviewed the current cash balance of the KPE Investment Partnership and its future obligations as of September 30, 2009, and expects the KPE Investment Partnership to continue as a going concern for at least one year. This assessment is based on historic and predicted timing of capital calls for the KPE Investment Partnership's unfunded commitments, its expected operating expenses, present sources of liquidity, its borrowing facilities and the potential ability to raise cash through sales of investments and other activities.

The KPE Investment Partnership utilizes a reporting schedule comprised of four three-month quarters with an annual accounting period that ends on December 31. The quarterly periods ended on March 31, June 30, September 30 and December 31. Interim results may not be indicative of our results for a full fiscal year. The financial results presented herein include activity for the quarters and nine months ended September 30, 2009 and September 30, 2008.

As of September 30, 2009, The KPE Investment Partnership operated through one reportable business segment for management reporting purposes.

Valuation of Investments

The investments carried as assets in the KPE Investment Partnership's consolidated financial statements are valued on a quarterly basis. The Managing Investor is responsible for reviewing and approving valuations of investments that are carried as assets in the KPE Investment Partnership's consolidated financial statements. Because valuing investments requires the application of valuation principles to the specific facts and circumstances of the investments, in satisfying its responsibilities, the Managing Investor utilizes the services of KKR to determine the fair values of certain investments and the services of an independent valuation firm, which performs certain agreed upon procedures with respect to valuations that are prepared by KKR, to confirm that such valuations are not unreasonable. An investment for which a market quotation is readily available is valued using a market price for the investment as of the end of the applicable accounting period. An investment for which a market quotation is not readily available is valued at the investment's fair value as of the end of the applicable accounting period, as determined in good faith.

Fair Value Measurements

The KPE Investment Partnership uses a hierarchal disclosure framework to report the fair value of their respective investments, which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – An unadjusted quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available. The KPE Investment Partnership does not adjust the quoted price for these investments, even in situations where it held a large position and a sale could reasonably impact the quoted price. As of September 30, 2009, 5.9 % of the KPE Investment Partnership's investments, compared to total investments, were valued as Level I investments.

Level II – Inputs are other than unadjusted quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. As of September 30, 2009, 4.3% of the KPE Investment Partnership's investments, compared to total investments, were valued as Level II investments.

Level III – Inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. As of September 30, 2009, 89.8% of the KPE Investment Partnership's investments, compared to total investments, were valued as Level III investments.

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

Valuation of Investments When a Market Quotation is Readily Available

An investment for which a market quotation is readily available is valued using period-end market prices and is categorized as Level I. When market prices are used, they do not necessarily take into account various factors which may affect the value that the KPE Investment Partnership would actually be able to realize in the future, such as:

- the possible illiquidity associated with a large ownership position;
- subsequent illiquidity in a market for a company's securities;
- future market price volatility or the potential for a future loss in market value based on poor industry conditions or other conditions; and
- the market's view of overall company and management performance.

If the above factors, or other factors deemed relevant, are taken into consideration and the fair value of the investment for which a market quotation is readily available does not rely exclusively on the quoted market price, the consideration of such factors rendered the fair value measurement at Level II or III.

Valuation of Investments When a Market Quotation is Not Readily Available

While there is no single standard for determining fair value in good faith, the methodologies described below are generally followed when the fair value of limited partner interests and individual investments that do not have a readily available market quotation is determined.

<table>
<tr><th></th><th>Valuation Methodology when Determining Fair Value in Good Faith</th></tr>
<tr><td>Level II:</td><td></td></tr>
<tr><td>Investments for which a market quotation is not readily available, but is based on a reference asset for which a market quotation is readily available</td><td>The value is generally based on the period-end market price of the reference asset for which a market quotation is readily available, adjusted for one or more factors deemed relevant for the fair value of the investment, which may include, but is not limited to:
• terms and conditions of the investment;
• discount for lack of marketability;
• borrowing costs;
• time to maturity of the investment; and
• volatility of the reference asset for which a market quotation is readily available.</td></tr>
<tr><td>Level III:</td><td></td></tr>
<tr><td>Limited partner interests in KKR's private equity funds and investments by a non-private equity fund</td><td>The value is based on the net asset value of each fund, which depends on the aggregate fair value of each of the fund's investments. The KPE Investment Partnership may be required to value such investments at a premium or discount, if other factors lead the Managing Investor to conclude that the net asset value do not represent fair value. Each fund's net asset value increases or decreases from time to time based on the amount of investment income, operating expenses and realized gains and losses on the sale or realization of investments, if any, that the fund records and the net changes in the unrealized appreciation and/or depreciation of its investments.

The fund's investments may be in companies for which a market quotation is or is not readily available including investments for which a market quotation is not readily available but is based on a reference asset for which a market quotation is readily available.</td></tr>
<tr><td>Investments in companies for which a market quotation is not readily available</td><td>Generally, a combination of two methods is used, including a market multiple approach that considers one or more financial measures, such as revenues, EBITDA, adjusted EBITDA, EBIT, net income or net asset value of comparable companies, and/or a discounted cash flow or liquidation analysis. Consideration may also be given to such factors as:
• the company's historical and projected financial data;
• valuations given to comparable companies;
• the size and scope of the company's operations;
• expectations relating to the market's receptivity to an offering of the company's securities;
• any control associated with interests in the company that are held by KKR and its affiliates including the KPE Investment Partnership;
• information with respect to transactions or offers for the company's securities (including the transaction pursuant to which the investment was made and the period of time that has elapsed from the date of the investment to the valuation date);
• applicable restrictions on transfer;
• industry information and assumptions;
• general economic and market conditions; and
• other factors deemed relevant.</td></tr>
</table>

The fair values of such investments are estimated by the Managing Investor in the absence of readily determinable fair values. Because of the inherent uncertainty of the valuation process, the fair value may differ materially from the actual value that would be realized if such investments were sold in an orderly disposition between willing parties. See Note 4, "Fair Value Measurements."

Foreign Currency

Investments denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of foreign currency denominated investments are translated into U.S. dollar amounts on the respective dates of such transactions. The KPE Investment Partnership does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair value. Such fluctuations are included within the net realized and unrealized gain (loss) from investments and foreign currency transactions in the consolidated statements of operations.

Derivatives

The KPE Investment Partnership has the option to purchase derivative financial instruments for opportunistic investing and for hedging purposes, which include total return swaps and options. In a total return swap, the KPE Investment Partnership has the right to receive any appreciation and dividends from a reference asset with a specified notional amount and has an obligation to pay to the counterparty any depreciation in the valuation of the reference asset, interest based on the notional amount and any other charge agreed to with the counterparty.

If the KPE Investment Partnership writes an option, an amount equal to the premium received is recorded as a liability and subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expired unexercised are treated by the KPE Investment Partnership on the expiration date as realized gains from investments. The difference between the premium and amount paid, including brokerage commissions, are also treated as a realized gain, or if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the KPE Investment Partnership has realized a gain or loss. If a put option is exercised, the premium received reduces the cost basis of the securities purchased by the KPE Investment Partnership. The KPE Investment Partnership, as writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option.

The risks of entering into swap and option agreements include, but are not limited to, the possible lack of liquidity, failure of the counterparty to meet its obligations and unfavorable changes in the underlying investments. The counterparties to the KPE Investment Partnership's derivative agreements are major financial institutions with which the KPE Investment Partnership and its affiliates may also have other financial relationships. The KPE Investment Partnership endeavors to minimize its risk of exposure by dealing with reputable counterparties of such agreements, although there is no assurance that these counterparties will remain solvent in the current market environment.

Cash and Cash Equivalents

Cash and cash equivalents consisted of cash held in banks and liquid investments with maturities, at the date of acquisition, not exceeding 90 days. As of September 30, 2009 and December 31, 2008, all of the cash and cash equivalents balances were invested in money market funds sponsored by reputable financial institutions or held by reputable financial institutions in interest-bearing time deposits.

Cash and Cash Equivalents Held by a Non-Private Equity Fund

Cash and cash equivalents held by a non-private equity fund consisted of cash held at a reputable financial institution in highly liquid investments with maturities, at the date of acquisition, not exceeding 90 days.

Restricted Cash

As of September 30, 2009 and December 31, 2008, restricted cash represented amounts pledged to third parties in connection with certain derivative instruments, which included an interest rate swap contract, futures contracts and forward foreign currency exchange contracts.

Foreign Currency Contracts

The KPE Investment Partnership entered into forward foreign currency exchange contracts to economically hedge against foreign currency exchange rate risks on certain non-U.S. dollar denominated investments. The KPE Investment Partnership agreed to deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed-upon future date. The net gain or loss on the contracts is the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date and is included in the consolidated statements of assets and liabilities. These foreign currency exchange contracts involve market risk and/or credit risk in excess of the amounts recognized in the statements of assets and liabilities. Risks arise from movements in currency, security values and interest rates and the possible inability of the counterparties to meet the terms of the contracts.

Other Assets

As of September 30, 2009 and December 31, 2008, other assets consisted primarily of debt issuance costs, interest receivable and other receivables.

Accrued Liabilities

Accrued liabilities were comprised of the following, with amounts in thousands:

	September 30, 2009	December 31, 2008
Accrued interest, long-term debt	$ 42,923	$ 36,719
Accrued interest, revolving credit agreement	449	481
Professional fees	592	403
Other	96	88
	$ 44,060	$ 37,691

Due to Affiliates

The amount due to affiliates was comprised of the following, with amounts in thousands:

	September 30, 2009	December 31, 2008
Management fees payable to KKR by the KPE Investment Partnership	$ 4,515	$ 2,813
Management fees payable to KKR by Strategic Capital Institutional Fund, Ltd.	24	13
Reimbursable expenses payable to KKR by the KPE Investment Partnership	—	38
	$ 4,539	$ 2,864

Other Liabilities

Other liabilities consisted of payments owed to vendors of the non-private equity fund investment.

Net Assets

As of September 30, 2009 and December 31, 2008, the net assets attributable to the general partner were $6.5 million and $5.6 million, respectively, and to the limited partner were $3,029.1 million and $2,623.0 million, respectively.

Income Recognition

The assets of the KPE Investment Partnership generates income or loss in the form of capital gains, dividends and interest. Income is recognized when earned. The KPE Investment Partnership also records income or loss in the form of unrealized appreciation or depreciation from investments and foreign currency transactions at the end of each quarterly accounting period when investments are valued, as well as the change in value of an interest rate swap. See “Valuation of Investments” above. Although the Managing Investor, with the assistance of KKR, determines the fair value of each of investment at each balance sheet date, the value of certain investments in privately held companies may not change from period to period. Each reporting period, KKR generally employs two valuation methodologies for each investment, typically (i) a market multiples approach, which considers a specified financial measure (such as EBITDA) for valuing comparable companies, and (ii) a discounted cash flow analysis, and records an amount that is within a range suggested by the methodologies. Each methodology incorporates various assumptions, and the outcome derived from one methodology may offset the outcome of another methodology such that no change in valuation may result from period to period. When an investment carried as an asset is sold and a resulting gain or loss is realized, including any related gain or loss from foreign currency transactions, an accounting entry is made to reverse any unrealized appreciation or depreciation previously recorded in order to ensure that the realized gain or loss recognized in connection with the sale of the investment does not result in the double counting of the previously reported unrealized appreciation or depreciation.

Expense Recognition

Expenses are recognized when incurred and consist primarily of the KPE Investment Partnership’s allocated share of the total management fees that are payable under the services agreement, interest expense, administrative costs (some of which may be expenses of KKR that are attributable to the KPE Investment Partnership’s operations and reimbursable under the services agreement) and incentive fees incurred by KKR Strategic Capital Institutional Fund, Ltd. (“SCF”), if any.

Interest expense was comprised primarily of interest related to outstanding borrowings under the KPE Investment Partnership’s revolving credit facility, the KPE Investment Partnership’s financing of its investment in Sun Microsystems, Inc. (“Sun”) and the amortization of debt financing costs. See Note 7, “Revolving Credit Agreement and Long-Term Debt.” In addition, and less significantly, interest expense related to outstanding borrowings by SCF was included in interest expense.

Dividend expense related to dividends paid on securities sold, not yet purchased. The KPE Investment Partnership settled all transactions related to securities sold, not yet purchased prior to the nine months ended September 30, 2009. As such, no dividend expense was recorded during such period.

General and administrative expenses included professional fees and other administrative costs.

Taxes

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

Concentrations of Credit Risk

As of September 30, 2009 and December 31, 2008, the majority of the KPE Investment Partnership's cash and cash equivalents and restricted cash balances were held by three financial institutions. As of December 31, 2008, the public equities owned or sold but not yet purchased and options written by the KPE Investment Partnership were held by or effectuated through one financial institution. As of September 30, 2009 and December 31, 2008, cash and cash equivalent balances of a non-private equity fund were held by one financial institution.

Guarantees

At the inception of the issuance of guarantees, if any, the KPE Investment Partnership recorded the fair value of the guarantee as a liability, with the offsetting entry recorded based on the circumstances in which the guarantee was issued. The KPE Investment Partnership did not have any such guarantees in place as of September 30, 2009 or December 31, 2008.

Subsequent Events

The KPE Investment Partnership evaluated subsequent events from October 1, 2009 through November 19, 2009, the date the financial statements were issued.

Recently Issued Accounting Pronouncements

Measuring Fair Value

In September 2006, the FASB issued Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosure* (formerly SFAS No. 157, *Fair Value Measurements*). SFAS No. 157 (ASC 820) defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 (ASC 820) applied to reporting periods beginning after November 15, 2007. The KPE Investment Partnership adopted SFAS No. 157 (ASC 820) during the first quarter of 2008. SFAS No. 157 (ASC 820) did not have a material impact on the consolidated financial statements of the KPE Investment Partnership.

In October 2008, the FASB issued ASC 820 (formerly FASB Staff Position No. 157-3 (FSP No. 157-3), *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*). FSP No. 157-3 (ASC 820) clarifies the application of SFAS No. 157 (ASC 820) in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for the financial asset is not active. The KPE Investment Partnership adopted FSP No. 157-3 (ASC 820) during the quarter ended December 31, 2008. FSP No. 157-3 (ASC 820) did not have a material impact on the KPE Investment Partnership's consolidated financial statements.

In April 2009, the FASB issued ASC 820 (formerly FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly*). FSP No. 157-4 (ASC 820) provides additional guidance for estimating fair value in accordance with SFAS No. 157 (ASC 820) when the volume and level of activity for the asset or liability have significantly decreased. FSP No. 157-4 (ASC 820) also includes guidance on identifying circumstances that indicate a transaction is not orderly. The KPE Investment Partnership adopted FSP No. 157-4 (ASC 820) during the quarter ended June 30, 2009. FSP No. 157-4 (ASC 820) did not have a material impact on the consolidated financial statements of the KPE Investment Partnership.

In September 2009, the FASB issued Accounting Standards Update (ASU) 2009-12 to provide guidance on measuring the fair value of certain alternative investments. The ASU amends ASC 820 to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value per share (NAV). ASU 2009-12 is effective for the first reporting period ending after December 15, 2009; however, early adoption is permitted. The KPE Investment Partnership is evaluating the impact of ASU 2009-12 on its consolidated financial statements.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued ASC 470-20-25-21, *Fair Value Option* (formerly SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*). SFAS No. 159 (ASC 470-20-25-21) permits entities to choose to measure many financial instruments and certain other items at fair value, with changes in fair value recognized in earnings. The KPE Investment Partnership adopted SFAS No. 159 (ASC 470-20-25-21) during the first quarter of 2008. SFAS No. 159 did not have a material impact on the consolidated financial statements of the KPE Investment Partnership.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued ASC 815, *Derivatives and Hedging* (formerly SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*). SFAS No. 161 (ASC 815) requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. The KPE Investment Partnership adopted SFAS No. 161 (ASC 815) on January 1, 2009. SFAS No. 161 (ASC 815) did not have a material impact on the consolidated financial statements of the KPE Investment Partnership.

Subsequent Events

In May 2009, the FASB issued ASC 855, *Subsequent Events* (formerly SFAS No. 165, *Subsequent Events*). SFAS No. 165 (ASC 855) establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. SFAS No. 165 (ASC 855) requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The KPE Investment Partnership adopted SFAS No. 165 (ASC 855) during the quarter ended June 30, 2009. SFAS No. 165 (ASC 855) did not have a material impact on the consolidated financial statements of the KPE Investment Partnership.

FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued ASC 105, *GAAP Hierarchy* (formerly SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*). SFAS No. 162 (ASC 105) identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS No. 162 (ASC 105) was effective November 13, 2008. SFAS No. 162 (ASC 105) was replaced by SFAS No. 168, *FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162,* (ASC 105) in June 2009.

SFAS No. 168 (ASC 105) identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP and establishes the *FASB Accounting Standards Codification*™ as the source of authoritative accounting principles recognized by the FASB. The KPE Investment Partnership adopted SFAS No. 168 during the quarter ended September 30, 2009. SFAS No. 168 did not have a material impact on the consolidated financial statements of the KPE Investment Partnership.

3. INVESTMENTS

Significant Investments

The KPE Investment Partnership's significant investments, which included aggregate private equity investments, with fair values in excess of 5.0% of the KPE Investment Partnership's net assets were as follows, with amounts in thousands, except percentages:

	September 30, 2009		
	Cost	Fair Value	Fair Value as a Percentage of the KPE Investment Partnership's Net Assets
KKR Portfolio Companies (1):			
Dollar General Corporation	$ 310,181	$ 572,155	18.9%
HCA Inc.	260,920	435,237	14.3
Alliance Boots GmbH	443,114	362,706	12.0
Biomet, Inc.	256,358	230,723	7.6
First Data Corporation	347,551	208,531	6.9
Energy Future Holdings Corp.	365,922	182,961	6.0
The Nielsen Company B.V.	172,841	172,841	5.7
U.S. Foodservice, Inc.	193,633	154,906	5.1
Negotiated Equity Investments:			
Sun Microsystems, Inc. (2)	701,164	647,500	21.3
	$ 3,051,684	$ 2,967,560	97.8%

	December 31, 2008		
	Cost	Fair Value	Fair Value as a Percentage of the KPE Investment Partnership's Net Assets
KKR Portfolio Companies (1):			
Dollar General Corporation	$ 345,495	$ 378,135	14.4%
Alliance Boots GmbH	443,114	268,998	10.2
Energy Future Holdings Corp.	365,922	256,146	9.7
HCA Inc.	309,476	247,581	9.4
First Data Corporation	412,293	247,376	9.4
Biomet, Inc.	304,915	243,932	9.3
The Nielsen Company B.V.	216,003	194,402	7.4
U.S. Foodservice, Inc.	193,633	154,906	5.9
Negotiated Equity Investments:			
Sun Microsystems, Inc. (2)	701,164	500,500	19.1
Orient Corporation	169,707	148,655	5.7
	$ 3,461,722	$ 2,640,631	100.5%

(1) Investments in such companies included the co-investment in the underlying portfolio company and the limited partner interest equal to the KPE Investment Partnership's pro rata share of KKR's private equity fund investment.

(2) The KPE Investment Partnership financed $350.0 million related to the Sun investment, for a net fair value investment of $297.5 million, or 9.8% of the KPE Investment Partnership's total net assets, as of September 30, 2009 and $150.5 million, or 5.7% of the KPE Investment Partnership's total net assets, as of December 31, 2008.

The following significant investments were comprised of co-investments in the underlying portfolio company and limited partner interests equal to the KPE Investment Partnership's pro rata share of KKR's private equity funds' aggregate investment in such portfolio company, with amounts in thousands:

	September 30, 2009		
	Fair Value of Co-Investment	Pro Rata Share of KKR's Private Equity Fund Investment	Aggregate Fair Value
Dollar General Corporation	$ 407,904	$ 164,251	$ 572,155
HCA Inc.	342,454	92,783	435,237
Alliance Boots GmbH	239,694	123,012	362,706
Biomet, Inc.	136,299	94,424	230,723
First Data Corporation	81,155	127,376	208,531
Energy Future Holdings Corp.	100,000	82,961	182,961
The Nielsen Company B.V.	156,839	16,002	172,841
U.S. Foodservice, Inc.	80,000	74,906	154,906
	$ 1,544,345	$ 775,715	$ 2,320,060

	December 31, 2008		
	Fair Value of Co-Investment	Pro Rata Share of KKR's Private Equity Fund Investment	Aggregate Fair Value
Dollar General Corporation	$ 275,000	$ 103,135	$ 378,135
Alliance Boots GmbH	175,123	93,875	268,998
Energy Future Holdings Corp.	140,000	116,146	256,146
HCA Inc.	200,000	47,581	247,581
First Data Corporation	120,000	127,376	247,376
Biomet, Inc.	160,000	83,932	243,932
The Nielsen Company B.V.	180,000	14,402	194,402
U.S. Foodservice, Inc.	80,000	74,906	154,906
	$ 1,330,123	$ 661,353	$ 1,991,476

The KPE Investment Partnership's investments in private equity funds, co-investments and negotiated equity investments consisted of securities that are not registered under the U.S. Securities Act of 1933, as amended (the "Act"). The KPE Investment Partnership does not have the right to demand the registration of its interests in the KKR private equity funds under the Act. Generally, the KPE Investment Partnership has the right, acting together with its affiliates, to demand the registration of the securities of the portfolio companies of the KPE Investment Partnership's co-investments and negotiated equity investments under the Act if a distribution of those securities would have been subject to registration under the Act. See Note 2, "Summary of Significant Accounting Policies – Valuation of Investments" for a description of the valuation of these investments.

Non-Private Equity Funds - KKR Strategic Capital Institutional Fund

Non-private equity fund investments consisted of investments by SCF. SCF is a KKR opportunistic credit fund principally investing in Strategic Capital Holdings I, L.P. ("SCH"), which in turn makes debt investments alongside funds managed by investment professionals affiliated with KKR Asset Management, formerly known as KKR Fixed Income. SCH is a shared investment partnership, of which SCF owns approximately 14.0%. The fair value of non-private equity fund investments was comprised of the following, with amounts in thousands:

	September 30, 2009	December 31, 2008
Investment in Strategic Capital Holdings I, L.P., at fair value	$ 111,337	$ 56,957
Special investments, at fair value	3,538	5,626
	$ 114,875	$ 62,583

SCF's investment in SCH was comprised of the following allocated portion of net assets held by SCH, with amounts in thousands:

	September 30, 2009	December 31, 2008
Assets:		
Cash and cash equivalents	$ 4,342	$ 2,525
Restricted cash and cash equivalents	919	36,259
Securities	10,541	5,310
Private equity investments	898	369
Corporate loans	68,138	6,277
Collateralized loan obligation in affiliates	27,806	27,259
Reverse repurchase agreements	—	5,344
Interest receivable	1,011	3,664
Derivative assets	—	7,661
Other assets	121	530
Total assets	113,776	95,198
Liabilities:		
Unsettled investments in trades and derivatives	2,439	—
Repurchase agreements	—	1,065
Interest payable	—	237
Securities sold, not yet purchased	—	5,238
Derivative liabilities	—	22,874
Other payables	—	8,827
Total liabilities	2,439	38,241
Net assets	$ 111,337	$ 56,957

As of September 30, 2009 and December 31, 2008, SCF had an investment balance of $3.5 million and $5.6 million, respectively, in special investments. Special investments are certain investments, acquired through direct investment or private placement that are believed to be illiquid, lack a readily assessable market value or should be held until the resolution of a special event or circumstance.

In October 2009, the KPE Investment Partnership, elected to receive a distribution in-kind of its assets in SCF.

4. FAIR VALUE MEASUREMENTS

The fair value of the KPE Investment Partnership's investments categorized by the fair value hierarchy levels were as follows, with amounts in thousands:

	Fair Value as of September 30, 2009			
	Total	Level I	Level II	Level III
Assets, at fair value:				
Co-investments in portfolio companies	$ 1,629,088	$ —	$ 38,487	$ 1,590,601
Negotiated equity investments	796,458	—	148,958	647,500
Private equity funds	1,567,542	—	—	1,567,542
Non-private equity funds—Investments by KKR Strategic Capital Institutional Fund, Ltd.	114,875	—	—	114,875
	4,107,963	—	187,445	3,920,518
Cash and cash equivalents (cash held in money market accounts)	255,941	255,941	—	—
	$ 4,363,904	$ 255,941	$ 187,445	$ 3,920,518

	Fair Value as of December 31, 2008			
	Total	Level I	Level II	Level III
Assets, at fair value:				
Opportunistic investments:				
Fixed income investments	$ 40,109	$ —	$ 40,109	$ —
Public equities — common stocks	1,072	1,072	—	—
Co-investments in portfolio companies	1,414,743	—	—	1,414,743
Negotiated equity investments	649,155	—	649,155	—
Private equity funds	1,184,958	—	—	1,184,958
Non-private equity funds—Investments by KKR Strategic Capital Institutional Fund, Ltd.	62,583	—	—	62,583
	$ 3,352,620	$ 1,072	$ 689,264	$ 2,662,284
Liabilities, at fair value:				
Securities sold, not yet purchased	$ 1,916	$ 1,916	$ —	$ —
	$ 1,916	$ 1,916	$ —	$ —

The changes in investments measured at fair value for which the KPE Investment Partnership used Level III inputs to determine fair value were as follows, with amounts in thousands:

Fair value of investments as of December 31, 2007	$ 4,579,911
Purchases, net of sales	47,933
Transfers out of Level III	(131,207)
Net realized loss on investments	(54,527)
Change in net unrealized depreciation on investments	(1,779,826)
Fair value of investments as of December 31, 2008	2,662,284
Sales, net of purchases	(90,753)
Transfers into Level III	500,500
Net realized loss on investments	(57,492)
Change in net unrealized appreciation on investments	905,979
Fair value of investments as of September 30, 2009	$ 3,920,518
Change in net unrealized appreciation on investments included in net increase in net assets resulting from operations related to Level III investments still held as of September 30, 2009	$ 860,568

The change in net unrealized appreciation on investments is included under the net change in unrealized appreciation on investments and foreign currency transactions in the KPE Investment Partnership's consolidated statement of operations for the nine months ended September 30, 2009.

5. SECURITIES SOLD, NOT YET PURCHASED

Whether part of a hedging transaction or a transaction in its own right, securities sold, not yet purchased, or securities sold short, represent obligations of the KPE Investment Partnership to deliver the specified security at the contracted price, and thereby create a liability to repurchase the security in the market at then prevailing prices. Short selling allows the investor to profit from declines in market prices. The liability for such securities sold short is marked to market based on the current value of the underlying security at the date of valuation. These transactions involve a market risk in excess of the amount currently reflected in the KPE Investment Partnership's consolidated statement of assets and liabilities. As of September 30, 2009 and December 31, 2008, the fair value of securities sold short, not yet purchased was nil and $1.9 million, respectively. During the quarter and nine months ended September 30, 2009, the net realized gain (loss) on investments and foreign currency transactions included losses of nil and $1.4 million, respectively, from closed positions in securities sold, not yet purchased. During the quarter and nine months ended September 30, 2008, the net realized gain (loss) on investments and foreign currency transactions included gains of $1.2 million and $3.6, respectively, from closed positions in securities sold, not yet purchased.

6. DERIVATIVES

The KPE Investment Partnership uses derivative instruments as part of its overall strategy to manage its exposure to market risks primarily associated with fluctuations in foreign currency and interest rates. The KPE Investment Partnership records all derivative instruments at fair value, as either assets or liabilities. The KPE Investment Partnership does not designate its derivative instruments as hedge accounting relationships. The fluctuation in the fair value of these derivative instruments offset the impact of changes in the value of the underlying risk that they are intended to economically hedge. Changes in the fair value of derivative instruments are included in net unrealized gain (loss) from investments and foreign currency transactions in the consolidated statements of operations.

The KPE Investment Partnership entered into forward foreign currency exchange contracts to economically hedge against foreign currency exchange rate risks on certain non-U.S. dollar denominated investments. The KPE Investment Partnership agreed to deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed-upon future date. The gain or loss on the contracts is the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date and is included in the consolidated statements of assets and liabilities.

In February 2008, an interest rate swap transaction related to the U.S. dollar denominated borrowings outstanding under the KPE Investment Partnership's five-year revolving credit agreement ("Credit Agreement") with a notional amount of $350.0 million became effective. In this transaction, the KPE Investment Partnership received a floating rate based on the one-month LIBOR interest rate and pays a fixed rate of 3.993% on the notional amount of $350.0 million. The interest rate swap matures February 25, 2010. The KPE Investment Partnership uses the interest rate swap to manage the interest rate risk associated with the floating rate under its Credit Agreement.

The KPE Investment Partnership's unrealized gain (loss) on a foreign currency exchange contracts and an interest rate swap contract was comprised of the following, with amounts in thousands:

	September 30, 2009	December 31, 2008
ASSETS:		
Foreign currency exchange contract - €150.0 million vs. $209.0 million for settlement in February 2013	$ —	$ 3,000
LIABILITIES:		
Foreign currency exchange contracts:		
¥10.0 billion vs. $91.6 million for settlement in June 2010	$ (19,972)	$ (19,792)
€50.0 million vs. $69.7 million for settlement in February 2013	(1,128)	—
Interest rate swap contract, matures February 2010...	(5,528)	(12,539)
	$ (26,628)	$ (32,331)

As of September 30, 2009, the KPE Investment Partnership had posted $8.5 million of restricted cash to collateralize losses on the interest rate swap transaction.

The foreign currency exchange contracts and interest rate swap contract presented above are representative of the volume of transactions during the nine months ended September 30, 2009.

The KPE Investment Partnership may also have purchased derivative financial instruments for investment purposes, which may include total return swaps and options. In a total return swap, the KPE Investment Partnership would have the right to receive any appreciation and dividends from a reference asset with a specified notional amount and would have an obligation to pay to the counterparty any depreciation in the valuation of the reference asset, interest based on the notional amount and any other charge agreed to with the counterparty.

During both the quarter and nine months ended September 30, 2009, the net realized gain (loss) on investments and foreign currency transactions included nil from the expiration or closing of options. During the quarter and nine months ended September 30, 2008, the net realized gain (loss) on investments and foreign currency transactions included gains of $0.1 and $3.6 million, respectively, from the expiration or closing of options.

7. REVOLVING CREDIT AGREEMENT AND LONG-TERM DEBT

Revolving Credit Agreement

In June 2007, the KPE Investment Partnership entered into a five-year revolving Credit Agreement with a syndicate of lenders. The Credit Agreement provides for up to $925.0 million of senior secured credit, subject to availability under a borrowing base determined by the value of certain investments pledged as collateral security for obligations under the agreement. The borrowing base is subject to certain investment concentration limitations and the value of the investments constituting the borrowing base is subject to certain advance rates based on type of investment. In September 2009, an original lender under the credit agreement that became bankrupt with an initial $75.0 million commitment was removed from the syndicate of lenders, which reduced the availability under the credit agreement from $1.0 billion to $925.0 million. As of September 30, 2009, $3,144.0 million of the KPE Investment Partnership's assets were pledged as collateral to the Credit Agreement. As of September 30, 2009, the remaining availability under the Credit Agreement was $5.4 million.

The interest rates applicable to loans under the Credit Agreement are generally based on either (i) the greater of the administrative agent's base rate or U.S. federal funds rate plus a specified margin of 0.5% or (ii) the Eurodollar rate plus a specified margin ranging from 0.75% to 1.0%, depending on the relevant assets constituting the borrowing base. In addition, the KPE Investment Partnership must pay an annual commitment fee of 0.2% on the undrawn commitments under the Credit Agreement. During the quarter and nine months ended September 30, 2009, interest expense of $6.2 million and $19.5 million, respectively, related to borrowings under the Credit Agreement, including the amortization of debt financing costs. During the quarter and nine months ended September 30, 2008, interest expense of $7.2 million and $34.8 million, respectively, related to borrowings under the Credit Agreement, including the amortization of debt financing costs.

Pursuant to covenants in the Credit Agreement, the KPE Investment Partnership must maintain a ratio of senior secured debt to total assets of 50% or less. In addition, the Credit Agreement contains certain other customary covenants as well as certain customary events of default. As of September 30, 2009, the KPE Investment Partnership was in compliance with all covenants in all material respects.

The Credit Agreement will expire on June 11, 2012, unless earlier terminated upon an event of default. The KPE Investment Partnership will be required to repay all outstanding borrowings under the Credit Agreement at that time if the KPE Investment Partnership is unable to refinance the Credit Agreement prior to its expiration or termination. Borrowings under the Credit Agreement may be used for general business purposes of the KPE Investment Partnership, including the acquisition and funding of investments. The KPE Investment Partnership's borrowings outstanding under the Credit Agreement were as follows, with amounts in thousands:

	September 30, 2009	December 31, 2008
Borrowings outstanding	$ 955,672	$ 968,970
Foreign currency adjustments - unrealized gains related to borrowings denominated in:		
British pounds sterling	(6,675)	(14,058)
Canadian dollars	—	(3,698)
	$ 948,997	$ 951,214

During the nine months ended September 30, 2009 and September 30, 2008, the weighted average dollar amount of borrowings related to the Credit Agreement was $932.8 million and $790.7 million, respectively, and the weighted average interest rate was 1.3% and 5.3%, respectively.

If total borrowings outstanding exceed 105% of the available amount under the Credit Agreement due to fluctuations in foreign exchange rates, the KPE Investment Partnership may be required to make certain prepayments on outstanding borrowings. As of September 30, 2009 and December 31, 2008, the KPE Investment Partnership was not subject to such prepayment requirements.

Long-Term Debt

During the year ended December 31, 2007, the KPE Investment Partnership entered into a financing arrangement with a major financial institution with respect to $350.0 million of its $700.0 million convertible notes investment in Sun.

The financing was structured through the use of total return swaps. Pursuant to the terms of the financing arrangement, $350.0 million of the Sun convertible notes are directly held by the KPE Investment Partnership and have been pledged to the financial institution as collateral (the "Pledged Notes") and the remaining $350.0 million of the Sun convertible notes are directly held by the financial institution (the "Swap Notes"). The Pledged Notes and Swap Notes are due as follows: $175.0 million are due in January 2012 and the remaining $175.0 million are due in January 2014. Pursuant to the security agreements with respect to the Pledged Notes, the KPE Investment Partnership has the right to vote the Pledged Notes and the financial institution is obligated to follow the instructions of the KPE Investment Partnership, subject to certain exceptions, so long as default does not exist under the security agreements or the underlying swap agreements. The KPE Investment Partnership is also restricted from transferring the Pledged Notes without the consent of the financial institution.

At settlement, the KPE Investment Partnership will be entitled to receive payment equal to any appreciation on the value of the Swap Notes and the KPE Investment Partnership will be obligated to pay to the financial institution any depreciation on the value of the Swap Notes. In addition, the financial institution is obligated to pay the KPE Investment Partnership any interest that would be paid to a holder of the Swap Notes when payment would be received by the financial institution. The per annum rate of interest payable by the KPE Investment Partnership for the financing is equivalent to the three-month LIBOR plus 0.90%, which accrues during the term of the financing and is payable at settlement. During the quarter and nine months ended September 30, 2009, interest expense related to the KPE Investment Partnership's financing of the Sun investment was $1.6 million and $6.2 million, respectively. During the quarter and nine months ended September 30, 2008, interest expense related to the KPE Investment Partnership's financing of the Sun investment was $3.6 million and $12.2 million, respectively.

The financing provides for early settlement upon the occurrence of certain events, including an event based on the value of the collateral and other events of default. The Pledged Notes are held by wholly-owned subsidiaries formed by the KPE Investment Partnership to enter into the Sun investment, and the rights and obligations described above with respect to the Pledged Notes and Swap Notes are the rights and obligations of these wholly-owned subsidiaries without recourse to the KPE Investment Partnership.

During both the nine months ended September 30, 2009 and September 30, 2008, the weighted average dollar amount of borrowings related to the long-term debt was $350.0 million and the weighted average interest rate was 2.1% and 4.1%, respectively.

Fair Value

The KPE Investment Partnership believes the carrying value of its debt approximates fair value as of September 30, 2009 and December 31, 2008.

Principal Payments

As of September 30, 2009, the KPE Investment Partnership's scheduled principal payments for borrowings under the Credit Agreement and long-term debt related to the financing of Sun were as follows, with amounts in thousands:

		Payments Due by Period			
	Total	**Less than 1 year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 years**
Revolving credit agreement	$ 948,997	$ —	$ 948,997	$ —	$ —
Long-term debt	350,000	—	175,000	175,000	—
Total	$ 1,298,997	$ —	$ 1,123,997	$ 175,000	$ —

8. DISTRIBUTABLE EARNINGS (LOSS)

The KPE Investment Partnership's distributable earnings (loss) were comprised of the following, with amounts in thousands:

Distributable earnings as of December 31, 2007	$ 158,410
Net decrease in net assets resulting from operations during the year ended December 31, 2008	(2,351,387)
Distribution to partners	(15,000)
Distributable loss as of December 31, 2008	(2,207,977)
Net increase in net assets resulting from operations during the nine months ended September 30, 2009	882,139
Distribution to partners	(475,130)
Distributable loss as of September 30, 2009	$ (1,800,968)

The KPE Investment Partnership's distributions to its general and limited partners were based on their pro rata partner interests.

As of September 30, 2009 and December 31, 2008, the accumulated undistributed net investment income was $72.4 million and $91.9 million, respectively. The accumulated undistributed net realized gain (loss) on investments and foreign currency transactions was a loss of $35.1 million as of September 30, 2009 and a gain of $43.5 million as of December 31, 2008. The accumulated undistributed net unrealized depreciation on investments and foreign currency transactions was $1,255.1 million and $2,235.2 million as of September 30, 2009 and December, 31, 2008, respectively.

9. OPERATING RESULTS ALLOCATED TO THE GENERAL AND LIMITED PARTNERS

Operating results for the general and limited partners of the KPE Investment Partnership were as follows, with amounts in thousands. Income and expenses were allocated to the general partner and limited partner based on their respective ownership percentages.

	Quarter Ended September 30, 2009		
	General Partner	Limited Partner	Total
Investment income:			
Interest income	$ 11	$ 5,141	$ 5,152
Dividend income, net of withholding taxes of $16, $7,494 and $7,510, respectively	39	19,126	19,165
Total investment income	50	24,267	24,317
Expenses:			
Management fees	—	10,603	10,603
Interest expense	15	7,800	7,815
General and administrative expenses	3	1,259	1,262
Total expenses	18	19,662	19,680
Net investment income	32	4,605	4,637
Realized and unrealized gain from investments and foreign currency:			
Net realized gain	11	5,290	5,301
Net change in unrealized appreciation	1,002	481,912	482,914
Net gain on investments and foreign currency transactions	1,013	487,202	488,215
Net increase in net assets resulting from operations	$ 1,045	$ 491,807	$ 492,852

	Quarter Ended September 30, 2008		
	General Partner	Limited Partner	Total
Investment income:			
Interest income	$ 21	$ 9,615	$ 9,636
Dividend income, net of withholding taxes of $0, $85 and $85, respectively	—	199	199
Total investment income	21	9,814	9,835
Expenses:			
Management fees	—	11,560	11,560
Interest expense	24	11,327	11,351
Dividend expense	—	194	194
General and administrative expenses	2	565	567
Total expenses	26	23,646	23,672
Net investment loss	(5)	(13,832)	(13,837)
Realized and unrealized loss from investments and foreign currency:			
Net realized loss	(39)	(19,683)	(19,722)
Net change in unrealized depreciation	(1,351)	(648,964)	(650,315)
Net loss on investments and foreign currency transactions	(1,390)	(668,647)	(670,037)
Net decrease in net assets resulting from operations	$ (1,395)	$ (682,479)	$ (683,874)

	Nine Months Ended September 30, 2009		
	General Partner	Limited Partner	Total
Investment income:			
Interest income	$ 27	$ 12,918	$ 12,945
Dividend income net of withholding taxes of $16, $7,494 and $7,510, respectively	51	24,311	24,362
Total investment income	78	37,229	37,307
Expenses:			
Management fees	—	28,244	28,244
Interest expense	52	25,788	25,840
General and administrative expenses	6	2,707	2,713
Total expenses	58	56,739	56,797
Net investment income (loss)	20	(19,510)	(19,490)
Realized and unrealized gain (loss) from investments and foreign currency:			
Net realized loss	(164)	(78,401)	(78,565)
Net change in unrealized appreciation	2,034	978,160	980,194
Net gain on investments and foreign currency transactions	1,870	899,759	901,629
Net increase in net assets resulting from operations	$ 1,890	$ 880,249	$ 882,139

	Nine Months Ended September 30, 2008		
	General Partner	Limited Partner	Total
Investment income:			
Interest income	$ 65	$ 31,598	$ 31,663
Dividend income, net of withholding taxes of $0, $249 and $249, respectively	18	8,937	8,955
Total investment income	83	40,535	40,618
Expenses:			
Management fees	—	38,298	38,298
Interest expense	100	48,675	48,775
Dividend expense	2	1,088	1,090
General and administrative expenses	9	3,169	3,178
Total expenses	111	91,230	91,341
Net investment loss	(28)	(50,695)	(50,723)
Realized and unrealized loss from investments and foreign currency:			
Net realized loss, net of withholding benefit of $0, $(37) and $(37)	(120)	(58,204)	(58,324)
Net change in unrealized depreciation	(2,079)	(999,501)	(1,001,580)
Net loss on investments and foreign currency transactions	(2,199)	(1,057,705)	(1,059,904)
Net decrease in net assets resulting from operations	$ (2,227)	$ (1,108,400)	$ (1,110,627)

10. REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY

The net gain (loss) from investments and foreign currency transactions in the KPE Investment Partnership's unaudited consolidated statements of operations included net realized gains or losses from sales of investments and the net change in unrealized appreciation or depreciation resulting from changes in fair value of investments (including foreign exchange gains and losses attributable to foreign-denominated investments). The following table represents the KPE Investment Partnership's net gain (loss) from investments and foreign currency transactions, with amounts in thousands:

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net realized gain (loss)	$ 5,301	$ (19,722)	$ (78,565)	$ (58,324)
Net change in unrealized appreciation (depreciation)	482,914	(650,315)	980,194	(1,001,580)
Net gain (loss) on investments and foreign currency transactions	$ 488,215	$ (670,037)	$ 901,629	$ (1,059,904)

The net change in unrealized appreciation (depreciation) on investments and foreign currency transactions was as follows, with amounts in thousands:

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Opportunistic and temporary investments	$ 5,285	$ (27,485)	$ 39,732	$ (19,380)
Co-investments	256,216	(287,108)	450,548	(475,969)
Negotiated equity investments	5,636	(176,902)	147,122	(313,147)
Investments in private equity funds	192,892	(151,071)	273,480	(169,719)
Investments in a non-private equity fund	22,885	(7,749)	69,312	(23,365)
	$ 482,914	$ (650,315)	$ 980,194	$ (1,001,580)

11. DISTRIBUTIONS

The Associate Investor determines, in its sole discretion, the amount and timing of distributions in respect of the Class A, Class B, Class C and Class D partner interests. If and when made, the distributions will be made pro rata in accordance with the partner's percentage interests, except as otherwise discussed below. During the nine months ended September 30, 2009, the KPE Investment Partnership made distributions of $475.1 million to its general and limited partners based on their pro rata partner interests.

Except as described below, each investment that is made by the KPE Investment Partnership is subject to either a carried interest or incentive distribution right, which generally entitles the Associate Investor or an affiliate of KKR to receive a portion of the profits generated by the investment.

Gains and losses from investments of any particular investment class are not netted against gains and losses from any other investment class when computing amounts that are payable in respect of carried interests and incentive distribution rights discussed below.

Distributions in Respect of Class A; Opportunistic and Temporary Investments	• The Associate Investor was entitled to an incentive distribution in an amount equal to 20% of the amount of the annual appreciation in the net asset value of opportunistic and temporary investments, after any previously incurred unrecouped losses have been recovered. • Appreciation was measured at the end of each annual accounting period. • The amount of appreciation was increased to reflect withdrawals of capital and decreased to reflect capital contributions for opportunistic and temporary investments. • Incentive distribution payable was temporarily waived, as discussed in Note 12, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."

During the one-year period following the commencement of the KPE Investment Partnership's operations, through May 10, 2007, the appreciation in the value of temporary investments was disregarded for the purposes of calculating the Associate Investor's incentive distribution.

If the KPE Investment Partnership does not distribute the entire incentive distribution after the end of the applicable period, the undistributed amount will, for the purpose of calculating the Associate Investor's percentage interest, be treated as being contributed by the Associate Investor to the partnership as a capital contribution.

To the extent that the KPE Investment Partnership acquired any interest in a private equity fund or other investment fund sponsored by KKR or any of its affiliates at a price that is greater or less than the net asset value of the fund that is allocable to such interest, the calculation of the incentive distribution to be paid to the general partner in respect of its Class A interest for the annual accounting period during which the disposition of all remaining assets of such fund occurs was adjusted as follows:

- For any interest acquired at a discount, a gain was reflected equal to the difference, if positive, between (i) the net asset value of the fund that was allocable to such interest at the date of acquisition or, if lower, the value realized and distributed in respect of such interest from the disposition of all fund assets from and after date of acquisition (in each case reduced by any capital contributed to the fund by the KPE Investment Partnership or its subsidiaries since the date of acquisition) and (ii) the price at which such interest was acquired.

- For any interest acquired at a premium, a loss was reflected equal to the difference, if positive, between (i) the price at which such interest was acquired and (ii) net asset value of the fund that was allocable to such interest at the date of acquisition or, if higher, the value realized and distributed in respect of such interest from the disposition of all fund assets from and after date of acquisition (in each case reduced by any capital contributed to the fund by the KPE Investment Partnership since the date of acquisition).

To the extent that the KPE Investment Partnership disposed of any interest in a KKR fund at a price that was greater or less than net asset value, a similar adjustment was performed. For purposes of the above, the Associate Investor may have elected to deem the disposition of all remaining assets of a fund to have occurred by valuing, for such purposes, all remaining fund assets at zero.

Distributions in Respect of Class B; Co-Investments in Portfolio Companies and Negotiated Equity Investments	• The Associate Investor is entitled to a carried interest of 20% on the net realized returns on each co-investment or negotiated equity investment. • Realized returns are calculated after the capital contribution for a particular investment was recovered and all prior realized losses for other co-investments and negotiated equity investments are recovered. • The Associate Investor could make distributions to itself in respect of its Class B carried interest without making corresponding distributions to the limited partner. • Carried interest payable was temporarily waived, as discussed in Note 12, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."

Distributions in Respect of Class C; Investments in KKR's Private Equity Funds	• The Associate Investor is not entitled to a carried interest or incentive distribution right with respect to the Class C interest; however, the general partner of KKR's private equity funds are generally entitled to a carried interest of 20% on the net realized return on each portfolio investment. • Realized returns are generally calculated after capital contributions for the particular portfolio investment have been returned to limited partners, realized losses on other portfolio investments of the fund have been recovered and certain unrealized losses (e.g., certain write-downs in the value of certain portfolio investments), if any, have been recovered. • The realized gains and losses of portfolio investments are not netted across funds and each carried interest applies only to the results of an individual fund. • Class C carried interests paid could have offset the management fee payable under the services agreement for a limited time as discussed in Note 12, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."

Distributions in Respect of Class D; Investments in KKR's Investment Funds Other than Private Equity Funds	• The Associate Investor is not entitled to a carried interest or an incentive distribution right with respect to the Class D interest; however, the general partner or the fund manager of a non-private equity fund of KKR is generally entitled to an incentive distribution specific to that particular investment fund. • The amount and calculation of the incentive distribution varies from fund to fund. • The gains and losses of investments are not netted across funds and each carried interest or incentive distribution applied only to the results of an individual fund. • Class D incentive distributions paid could have offset the management fee payable under the services agreement for a limited time as discussed in Note 12, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."

12. RELATIONSHIP WITH KKR AND RELATED PARTY TRANSACTIONS

In connection with the formation of KKR Guernsey and the initial offering of its common units, affiliates of KKR contributed $75.0 million in cash to the KPE Investment Partnership and KKR Guernsey, of which $10.0 million was contributed to the KPE Investment Partnership in respect of general partner interests in the KPE Investment Partnership and $65.0 million was contributed to KKR Guernsey in exchange for common units.

Subject to the supervision of the board of directors of the Managing Investor and the board of directors of the Managing Partner, KKR assisted the KPE Investment Partnership and KKR Guernsey in selecting, evaluating, structuring, diligencing, negotiating, executing, monitoring and exiting investments and managing the uninvested cash of the KPE Investment Partnership and also provided financial, legal, tax, accounting and other administrative services. These investment activities were carried out by KKR's investment professionals and KKR's investment committee pursuant to the services agreement or under investment management agreements between KKR and its investment funds.

Services Agreement

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

The services agreement contains certain provisions requiring the KPE Investment Partnership and the other service recipients to indemnify KKR and its affiliates with respect to all losses or damages arising from acts not constituting bad faith, willful misconduct or gross negligence. The Managing Investor has evaluated the impact of these guarantees on the consolidated financial statements and determined that they are not material at this time.

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

Management Fees

Under the services agreement, the KPE Investment Partnership and the other service recipients jointly and severally agreed to pay KKR a management fee, quarterly in arrears, in an aggregate amount equal to (prior to the Business Combination) one-fourth of the sum of:

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

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

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

For the purposes of calculating the management fee under the services agreement, "equity" was defined as the sum of the net proceeds in cash or otherwise from each issuance of KKR Guernsey's limited partner interests, after deducting any managers' commissions, placement fees and other expenses relating to the initial offering and related transactions, plus or minus KKR Guernsey's cumulative distributable earnings or loss at the end of such quarterly period (taking into account actual distributions but without taking into account the management fee relating to such quarterly period and any non-cash equity compensation expense incurred in current or prior periods), as reduced by any amount that KKR Guernsey paid for repurchases of KKR

Guernsey's limited partner interests. The foregoing calculation of "equity" was adjusted to exclude (i) one-time events pursuant to changes in U.S. GAAP as well as (ii) any non-cash items jointly agreed to by the Managing Partner (with the approval of a majority of its independent directors) and KKR.

The management fee payable under the services agreement was reduced in current or future periods by an amount equal to the sum of (i) any cash that the KPE Investment Partnership and the other service recipients, as limited partners of KKR's investment funds, paid to KKR or its affiliates during such period in respect of management fees of such funds (or capital that the KPE Investment Partnership contributes to KKR's investment funds for such purposes), regardless of whether such management fees were received by KKR in the form of a management fee or otherwise and (ii) management fees, if any, that the KPE Investment Partnership may pay third parties in the future in connection with investments.

To the extent that the amount of management fee reductions in respect of a particular quarterly period exceeded the amount of the fee that was otherwise payable, KKR was required to credit the difference against any future management fees that may have become payable under the services agreement. Under no circumstances, however, did credited amounts reimbursed by KKR reduce the management fee payable in respect of any quarterly period below zero.

The management fee payable under the services agreement was not subject to reduction based on any other fees that KKR or its affiliates received in connection with the KPE Investment Partnership's investments, including any transaction or monitoring fees that are paid by a third party. In addition, the management fee is not reduced if the Managing Partner determined, in good faith, that a reduction in the management fee would have jeopardize the classification of KKR Guernsey as a partnership for U.S. federal income tax purposes.

During the quarter and nine months ended September 30, 2009, management fee expense was $10.6 million and $28.2 million, respectively. During the quarter and nine months ended September 30, 2008, management fee expense was $11.6 million and $38.3 million, respectively.

As of October 1, 2009, the management fee was amended to reflect the terms of the Business Combination.

Carried Interests and Incentive Distributions

As described in Note 11, "Distributions," each investment that is made by the KPE Investment Partnership is subject to either a carried interest or incentive distribution right, which generally entitles the Associate Investor or an affiliate of KKR to receive a portion of the profits generated by the investment.

Until the profits on the KPE Investment Partnership's consolidated investments that were subject to a carried interest or incentive distribution right equaled the managers' commissions, placement fees and other expenses incurred in connection with KKR Guernsey's initial offering and related transactions, (i) the Associate Investor had to forego its carried interest and incentive distribution rights on opportunistic, temporary investments, co-investments and negotiated equity investments and (ii) the management fee payable under the services agreement was reduced by the amount of carried interests and incentive distributions made pursuant to the terms of the investment funds in which the KPE Investment Partnership was invested, limited to 5% of KKR Guernsey's gross income (other than income that qualified as capital gains) for U.S. federal income tax purposes for a taxable year minus any gross income earned by or allocated to KKR Guernsey for U.S. federal income tax purposes during such taxable year that was not "qualifying income" as defined in Section 7704(d) of the U.S. Internal Revenue Code. This recoupment through profits of expenses incurred in connection with KKR Guernsey's initial offering and related transaction was terminated on October 1, 2009.

As of September 30, 2009, managers' commissions, placement fees and other expenses incurred in connection with the initial offering and related transactions exceeded the amount of profits related to the carried interests and incentive distribution rights payable on certain of the KPE Investment Partnership's consolidated investments. Therefore, no carried interests or incentive distributions based on opportunistic investments, temporary investments, co-investments or negotiated equity investments were payable to the Associate Investor as of September 30, 2009.

Investments in Affiliates and Unaffiliated Issuers

Investments in affiliates were $3,311.5 million and $2,662.3 million as of September 30, 2009 and December 31, 2008, respectively, which included investments in co-investments in KKR portfolio companies, KKR private equity funds and SCF. All other investments were in unaffiliated issuers, which included negotiated equity investments of $796.5 million as of September 30, 2009 and negotiated equity and opportunistic investments totaling $690.3 million as of December 31, 2008.

The net gain (loss) on investments and foreign currency transactions were comprised of the following, with dollars in thousands:

	Quarter Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net realized gain (loss) from:				
Investments in affiliates	$ 8,202	$ (17,972)	$ (57,492)	$ (32,774)
Investments in unaffiliated issuers	(2,901)	(1,750)	(21,073)	(25,550)
	5,301	(19,722)	(78,565)	(58,324)
Net change in unrealized appreciation (depreciation) from:				
Investments in affiliates	471,869	(515,391)	797,466	(696,347)
Investments in unaffiliated issuers	11,045	(134,924)	182,728	(305,233)
	482,914	(650,315)	980,194	(1,001,580)
Net gain (loss) on investments and foreign currency transactions	$ 488,215	$ (670,037)	$ 901,629	$ (1,059,904)

Reimbursed Expenses

During both the quarters and nine months ended September 30, 2009 and September 30, 2008, the KPE Investment Partnership paid KKR less than $0.1 million for reimbursable direct expenses incurred pursuant to the services agreement. These reimbursed expenses were included in the KPE Investment Partnership's general and administrative expenses.

License Agreement

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

Other

The KPE Investment Partnership sold interests in certain co-investments to a KKR sponsored co-investment fund with an aggregate fair value of $211.0 million as of March 31, 2009, after giving effect to certain post-closing adjustments. Such interests in co-investments had an original cost of $240.3 million and were sold for an aggregate purchase price of $200.4 million, resulting in a realized loss of $39.9 million during the nine months ended September 30, 2009.

During the nine months ended September 30, 2009, KKR Corporate Capital Services LLC, a subsidiary of KKR, acquired a $64.8 million commitment to the KPE Investment Partnership's Credit Agreement from an existing lender.

13. COMMITMENTS

As of September 30, 2009, the KPE Investment Partnership had the following commitments to KKR private equity funds, with amounts in thousands:

	Capital Commitment	Uncalled Commitment
KKR 2006 Fund L.P.	$ 1,555,000	$ 390,409
KKR Asian Fund L.P.	285,000	168,470
KKR European Fund III, Limited Partnership	282,356	270,183
KKR E2 Investors L.P.	17,644	17,644
	$ 2,140,000	$ 846,706

Capital contributions are due on demand; however, given the size of such commitments and rates at with KKR's funds make investments, the KPE Investment Partnership expects that the unfunded capital commitments presented above will be called over a period of several years.

As is common with investments in investment funds, the KPE Investment Partnership follows an over-commitment approach when making investments through KKR's investment funds in order to maximize the amount of capital that is invested at any given time. When an over-commitment approach is followed, the aggregate amount of capital committed by the KPE Investment Partnership to investments at a given time may exceed the aggregate amount of cash that the KPE Investment Partnership has available for immediate investment. Because the general partners of KKR's investment funds are permitted to make calls for capital contributions following the expiration of a relatively short notice period, when an over-commitment approach is used, the KPE Investment Partnership is required to time investments and manage available cash in a manner that allowed it to fund its capital commitments as and when capital calls were made.

As the service provider under the services agreement, KKR is primarily responsible for carrying out these activities for the KPE Investment Partnership. KKR takes into account expected cash flows to and from investments, including cash flows to and from KKR's investment funds, when planning investment and cash management activities with the objective of seeking to ensure that the KPE Investment Partnership is able to honor its commitments to funds as and when they become due. KKR also takes into account the senior secured credit facility established by the KPE Investment Partnership. As of September 30, 2009, the KPE Investment Partnership was over-committed.

14. FINANCIAL HIGHLIGHTS

Financial highlights for the KPE Investment Partnership for the quarter ended September 30, 2009 were as follows:

	Opportunistic and Temporary Investments (Class A)	Co-Investments and Negotiated Equity Investments (Class B)	Private Equity Funds (Class C)	Non-Private Equity Funds (Class D)	Total
Total return (annualized)	(6.3)%	61.8%	59.4%	133.2%	64.9%
Ratios to average net assets:					
Total expenses (annualized)	8.3	0.4	0.0	3.5	2.6
Net investment income (loss) (annualized)	(8.1)	2.8	1.9	12.6	0.6

Financial highlights for the KPE Investment Partnership for the quarter ended September 30, 2008 were as follows:

	Opportunistic and Temporary Investments	Co-Investments and Negotiated Equity Investments	Private Equity Funds	Non-Private Equity Funds	Total
Total return (annualized)	(53.7)%	(64.2)%	(35.2)%	(48.4)%	(59.6)%
Ratios to average net assets:					
Total expenses (annualized)	22.4	0.5	0.0	2.9	2.1
Net investment income (loss) (annualized)	(18.9)	(0.3)	0.0	10.2	(1.2)

Financial highlights for the KPE Investment Partnership for the nine months ended September 30, 2009 were as follows:

	Opportunistic and Temporary Investments (Class A)	Co-Investments and Negotiated Equity Investments (Class B)	Private Equity Funds (Class C)	Non-Private Equity Funds (Class D)	Total
Total return (annualized)	(5.7)%	53.4%	30.3%	111.7%	44.9%
Ratios to average net assets:					
Total expenses (annualized)	8.3	0.5	0.0	1.5	2.7
Net investment income (loss) (annualized)	(7.8)	0.8	1.1	8.2	(0.9)

Financial highlights for the KPE Investment Partnership for the nine months ended September 30, 2008 were as follows:

	Opportunistic and Temporary Investments	Co-Investments and Negotiated Equity Investments	Private Equity Funds	Non-Private Equity Funds	Total
Total return (annualized)	(39.8)%	(33.1)%	(13.1)%	(25.3)%	(29.7)%
Ratios to average net assets:					
Total expenses (annualized)	27.6	0.6	0.0	3.4	2.8
Net investment income (loss) (annualized)	(23.3)	(0.4)	0.7	9.9	(1.5)

The total return and ratios were calculated based on weighted average net assets.

15. CONTINGENCIES

As with any partnership, the KPE Investment Partnership may become subject to claims and litigation arising in the ordinary course of business. The Managing Investor does not believe that there are any pending or threatened legal proceedings that would have a material adverse effect on the consolidated financial position, operating results or cash flows of the KPE Investment Partnership.

16. SUBSEQUENT EVENTS

On October 1, 2009, the limited partner interests of the KPE Investment Partnership were transferred from KKR Guernsey to KKR, pursuant to the Business Combination. See Note 1, "Business."

On October 1, 2009, pursuant to the Business Combination, the KPE Investment Partnership and certain of its subsidiaries transferred the following to KKR: (i) $75.8 million of cash and cash equivalents, (ii) its investment in Sun with a fair value, net of debt of $297.5 million, (iii) limited partner interests in co-investments in NXP, ProSieben and Capmark with fair values of $25.0 million, $8.7 million and nil, respectively, and (iv) $42.1 million of certain other liabilities, net of other assets.

Subsequent to September 30, 2009 and through November 19, 2009, the KPE Investment Partnership repaid $150.0 million of borrowings outstanding under the Credit Agreement.

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