KKR | Private Equity Investors, L.P.

2008 Annual Financial Report

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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Two thousand eight was a time of unprecedented volatility and change in global capital markets, as institutions and paradigms that had stood for decades were dismantled and the investment community began to fundamentally re-envision global financial architecture.

George R. Roberts & Henry R. Kravis

As we write this letter, the outlook for the remaining ten months of 2009 is sobering. We are in the midst of what will undoubtedly be a long and protracted global slowdown. The contraction in economic and financial activity that began in 2007 has accelerated, resulting in debt and equity markets that continue to experience severe contractions. With public equity prices, global home prices, global gross domestic product metrics and employment rates all falling, and the U.S. consumer deferring discretionary spending, a sustainable recovery appears unlikely in the near future. While we have recently witnessed some signs of returning stability in the credit markets, the system as a whole has not normalized.

KKR Private Equity Investors, L.P. ("KPE"), through its investment partnership KKR PEI Investments, L.P. (the "Investment Partnership"), has addressed the uncertainty in the markets by vigilantly managing liquidity, decreasing its overall risk profile and, through the efforts of Kohlberg Kravis Roberts & Co. and its affiliates (collectively, "KKR"), continuing to focus on the operations and financial stability of the private equity portfolio companies comprising the vast majority of KPE's assets. These actions are intended to position KPE for a more turbulent macroeconomic environment and long-term success.

Portfolio Review

The Investment Partnership's focus throughout 2008, but especially during the later months of the year, which collectively presented a more challenging environment than the earlier months, was on the preservation of liquidity. To this end, the Investment Partnership successfully completed a secondary sale of selected limited partner interests in and undrawn commitments to two KKR private equity funds in April of 2008 for a 7.9% weighted average discount to net asset value as of March 31, 2008. This sale generated $299.5 million of cash.

The Investment Partnership also deliberately scaled back its opportunistic investment portfolio during 2008, selling the portfolio down to a de minimis level as of February 27, 2009 from $458.8 million as of December 31, 2007; the KKR Strategic Capital Institutional Fund remains in the opportunistic portfolio. As with the secondary sales, this action was undertaken to generate additional liquidity reserves. The reduction in the size of the opportunistic portfolio, which consisted of public equities, fixed income investments and derivative instruments, also significantly reduced the Investment Partnership's overall risk profile by lowering its direct exposure to public market dynamics and boosting the percentage of its assets invested in KKR private equity transactions. As of December 31, 2008, the Investment Partnership held over 95% of its investments in six KKR private equity funds, 13 co-investments in portfolio companies within these private equity funds and three negotiated equity investments.

With the vast majority of its assets now invested in KKR private equity fund portfolio companies, we believe that the Investment Partnership comprises a highly attractive portfolio that we believe should provide unitholders with meaningful value in the long-term. Most of the private equity portfolio companies comprising these assets are leading large-scale, multi-faceted, national and global businesses offering significant opportunity for value creation. These include companies such as Alliance Boots GmbH, Biomet, Inc., Dollar General Corporation and HCA Inc. At the time we write this letter, many of these companies are performing strongly despite macroeconomic headwinds. Alliance Boots, for example, is validating our investment thesis for the business, which was to own a market leader in a defensive industry with significant potential for revenue enhancement and budget savings. Biomet is growing in terms of both sales and adjusted EBITDA due to continued strong performance in its orthopedics businesses, where the company appears to have captured market share as a result of strong products and solid execution. And Dollar General is experiencing strong revenue and EBITDA growth due to the appeal of the company's value-oriented merchandise and convenient locations to consumers, and the positive impact of significant operational improvements that have distinguished Dollar General from its competitors. KKR investment professionals, portfolio company management teams and KKR Capstone operational consultants are working diligently to improve operations at the KKR portfolio companies and to position them for an extended period of slower global growth by making cost structures congruent with reduced top-line expectations; deleveraging; preemptively anticipating and addressing any refinancing issues; mandating stricter cash management practices; streamlining procurement programs and deploying talent where it is most critically needed – among other initiatives. We have a high conviction that these portfolio companies will ultimately produce realizations which will accrue to the benefit of KPE unitholders.

In keeping with its mandate, the Investment Partnership's range of investments in aggregate continued to yield a broadly diversified portfolio in 2008. As of December 31, 2008, these investments were held in 78 companies spanning nine industry groups, including chemicals, consumer products, energy, financial services, healthcare, industrial, media/telecom, retail and technology. Geographically, these investments were located in 14 countries in North America, Europe and Asia.

Unit Price & Proposed Transaction with KKR

KPE's unit price performance was disappointing in 2008, ending the year at $3.50 per unit on December 31, 2008 versus $18.16 on December 31, 2007. This represents a fall of 80.7% and meant that KPE underperformed leading market indices during 2008, including the Amsterdam Exchanges Index, the S&P 500 Financials Sector, the S&P Listed Private Equity Index and the S&P 500 Index, which fell by 52.3%, 57.0%, 66.5% and 38.5%, respectively. We are unhappy with this decline, which has widened the discount of KPE's unit price to KPE's net asset value per unit to 72.6% as of December 31, 2008 (when KPE's unit price of $3.50 compared to a net asset value per unit of $12.78) from 25.5% as of December 31, 2007 (when KPE's unit price of $18.16 compared to a net asset value per unit of $24.36). Although KPE's unit price decline for the year ended December 31, 2008 is unsatisfactory, it was in-line with the unit price declines of many peer listed private equity vehicles for the year, including those listed in Europe and the United States. Many of these vehicles also traded at significant discounts to net asset value.

On July 27, 2008, KPE and KKR announced their agreement for KKR to acquire all of the assets and assume all of the liabilities of KPE in return for the issuance to KPE unitholders of certain interests in KKR. The financial world and markets have changed dramatically since July 2008. KKR and the independent directors of KPE's general partner are in the process of evaluating the impact of these changes on the continued advisability of the transaction and hope to complete their analysis over the next several weeks.

Governance

During 2008, KPE continued to benefit from the oversight of its general partner's majority-independent Board of Directors. Board member Gérard Lamarche regrettably resigned from the Board in early 2009 due to obligations on his time unrelated to KPE; he had joined the Board in June 2007. As of the date of this letter, we continue our search for his replacement. The other members of the Board include Henry R. Kravis, Co-Founder, KKR; George R. Roberts, Co-Founder, KKR; Christopher M.W. Hill, Associate of the Chartered Institute of Bankers; and Remmert J. Laan, Vice Chairman of Leonardo & Co.

Conclusion

We remain positive on the long-term outlook for KPE because we believe in the long-term outlook for KPE's investments. Our private equity portfolio companies continue to execute on multi-year strategic plans for their businesses, with a particular focus on managing costs, generating cash and meeting financial obligations. We believe that KPE will benefit from the core of what KKR has been doing for 33 years: Being patient. Being disciplined. Being focused. Seeking to create value over the long-term. Aligning the interests of the operators of the private equity portfolio companies, investors and KKR. And placing emphasis on operational improvements that benefit multiple stakeholders.

We thank KPE's current investors for their support during 2008 and we pledge to continue to work to earn this support anew each quarter going forward.

Henry R. Kravis & George R. Roberts

Co-Chairmen of the Board of Directors of the General Partner of KKR Private Equity Investors, L.P.

March 2, 2009

2008 Operating and Financial Review

Introduction

This "Operating and Financial Review" should be read in conjunction with the financial statements and related notes of KKR Private Equity Investors, L.P. ("KPE") and the consolidated financial statements and related notes of KKR PEI Investments, L.P. (the "Investment Partnership"), which are included elsewhere within this report.

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," "KPE" and "our partnership"** are to KKR Private Equity Investors, L.P., a Guernsey limited partnership;
- **our "Managing Partner"** is to KKR Guernsey GP Limited, a Guernsey limited company, which serves as our general partner;
- **the "Investment Partnership"** is to KKR PEI Investments, L.P., a Guernsey limited partnership, and, as applicable, its subsidiaries, through which our investments are made;
- **the "Associate Investor"** is to KKR PEI Associates, L.P., a Guernsey limited partnership, which serves as the general partner of the Investment Partnership;
- **the "Managing Investor"** is to KKR PEI GP Limited, a Guernsey limited company, which serves as the general partner of the Associate Investor; and
- **"KKR"** is to Kohlberg Kravis Roberts & Co. L.P., a Delaware limited partnership, and, as applicable, its subsidiaries, which provide certain investment management, operational and financial services to us and others involved in our investments. "KKR" may also refer to KKR & Co. L.P. and its consolidated subsidiaries after certain reorganization transactions involving Kohlberg Kravis Roberts & Co. L.P. and its affiliates.

Additionally, unless the context suggests otherwise, we use the term "our investments" to refer both to our limited partner interests in the Investment Partnership, which are the only investments that we record in our statements of assets and liabilities, and investments that are made by the Investment Partnership. Although the investments that the Investment Partnership makes with our capital do not appear as investments in our financial statements, we are directly affected by the overall performance of these investments. We also use the term "our investments" to refer to portfolio investments of KKR's investment funds in which the Investment Partnership invests. While other KKR fund partners are involved in those portfolio company investments, the Investment Partnership, and therefore we, are generally entitled to share ratably in the returns and, conversely, the risk of loss with respect to such investments.

Our Partnership

KPE seeks to create long-term value by participating in private equity and opportunistic investments identified by KKR. Formed in April 2006, KPE enables certain public market investors to invest in KKR-sponsored investments. KPE makes its investments through the Investment Partnership as its sole limited partner. Our only substantial assets are limited partner interests in the Investment Partnership. Our limited partnership agreement provides for the management of our business and affairs by a general partner. The Managing Partner, a Guernsey limited company that is owned by individuals who are affiliated with KKR, serves as our general partner and is required to have a majority-independent board of directors.

KPE is a listed, tradable investment offering direct access to KKR investment professionals and KKR identified investments. KPE benefits from the active involvement of KKR's senior management, including individuals on the Investment and Portfolio Management Committees; KKR's full range of senior advisors, most of whom are former CEOs and CFOs of multinational corporations; the industry specialists on KKR industry deal teams; and KKR Capstone, a team of operational consultants that work exclusively with KKR's investment professionals and portfolio companies. KKR investment professionals, who have an equity stake in KPE, select, evaluate, structure, diligence, negotiate, execute, monitor and exit all KPE investments made by the Investment Partnership, which include:

- **Private equity investments, including:**
  - limited partner interests in KKR's private equity funds, including current funds, future funds and past funds through the purchase of limited partner interests in the secondary market;
  - the opportunity to co-invest in certain portfolio companies of those funds; and
  - the ability to make negotiated equity investments in equity or equity-linked securities.
- **Opportunistic investments**, which include any investments identified by KKR in the course of its business other than private equity investments, including public equities and fixed income investments; and
- **Temporary investments**, which include investments made in connection with cash management activities.

The Investment Partnership had invested 96.0% of its adjusted assets in private equity and temporary investments and 4.0% of its adjusted assets in opportunistic investments as of December 31, 2008, which complied with our investment policies and procedures. These policies and procedures state that the Investment Partnership will 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" are defined as the Investment Partnership's consolidated assets less the amount of indebtedness that is recorded as a liability on its consolidated statement of assets and liabilities.

The Associate Investor is responsible for managing the business and affairs of the Investment Partnership. Because the Associate Investor is itself a limited partnership, the Managing Investor is effectively responsible for managing the business and affairs of the Investment Partnership. While we are not entitled to participate in the management of the business and affairs of the Investment Partnership, the Investment Partnership's limited partnership agreement provides that its investments must comply with the investment policies and procedures established for KPE.

The Associate Investor, in its sole discretion, may allocate assets and liabilities of the Investment Partnership to the relevant class of limited partner interests of the Investment Partnership in accordance with the terms and conditions of the limited partnership agreement. The Associate Investor also determines the amount of all distributions, profits and losses relating to each class, as well as corresponding expense allocations to each class.

KPE is not a taxable entity in Guernsey and has made a protective election to be treated as a partnership for United States ("U.S.") federal income tax purposes and, therefore, incurs no U.S. federal income tax liability. Instead, each unitholder takes into account its allocable share of items of income, gain, loss, deduction and credit of KPE in computing its U.S. federal income tax liability.

KPE 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 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 (the "New Rules"). KPE operates in accordance with the provisions of the New Rules. There is no requirement for existing funds authorized by the 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, KPE became regulated under the New Rules and is deemed to be an authorized closed-ended investment scheme under the New Rules with 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.

KPE will not elect to be treated as a less regulated registered collective investment scheme.

Business Combination Transaction

On July 27, 2008, KPE and KKR & Co. L.P., together with certain other related parties, entered into a purchase and sale agreement (the "Sale Agreement"), whereby KKR & Co. L.P. agreed to acquire all of the assets and assume all of the liabilities of KPE in return for the issuance to KPE unitholders of certain interests in KKR & Co. L.P. (the "Transaction"). KKR & Co. L.P. is an affiliate of KKR. The financial world and markets have changed dramatically since July 2008. KKR and the independent directors of KPE's general partner are in the process of evaluating the impact of these changes on the continued advisability of the Transaction and hope to complete their analysis over the next several weeks. See Note 1, "Business – Business Combination Transaction" of KPE's financial statements included elsewhere within this report.

About KKR

Established in 1976, KKR is a leading global alternative asset manager. KKR's franchise is sponsoring and managing funds that make investments in private equity, fixed income and other assets in North America, Europe, Asia and the Middle East. Throughout its history, KKR has brought a long-term investment approach, focusing on working in partnership with management teams of its portfolio companies and investing for future competitiveness and growth. Funds that KKR sponsors, in addition to KPE, include traditional private equity funds; two credit strategy funds, KKR Financial Holdings LLC (NYSE: KFN) and the KKR Strategic Capital Funds, which make investments in debt transactions; and separately managed accounts focused on a variety of asset classes. KKR has offices in New York, Menlo Park (California), San Francisco, Houston, Washington D.C., London, Paris, Hong Kong, Tokyo, Beijing, Mumbai and Sydney.

KKR has completed more than 165 private equity transactions with an aggregate enterprise value of over $424.0 billion. As of December 31, 2008, KKR's traditional private equity investments were valued at over $77.8 billion on over $44.4 billion of invested capital, a multiple in excess of 1.7 times.

KKR possesses a number of strengths that differentiates it from other alternative asset managers and provides it with competitive advantages. These strengths include the following:

- Firm culture and values;
- Distinguished track record across economic cycles;
- Alignment of interests;
- Distinct ability to source proprietary investments;
- Strong relationships with financial leaders;
- Global scale and infrastructure;
- Long-standing investor relationships;
- Sizeable long-term capital base;
- Creativity and innovation; and
- Leading brand name

KKR's leading position in the alternative asset management industry is due to the strategies it has created for sourcing investments through industry team focus, direct contacts with business leaders and strong relationships with financial leaders, as well as creating value for stakeholders through operationally focused investment professionals, KKR Capstone consultants, senior advisors and a disciplined value creation process.

KKR has agreed to provide certain investment, financial advisory, operational and other services to KPE, the Investment Partnership and other service recipients pursuant to a services agreement. 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.

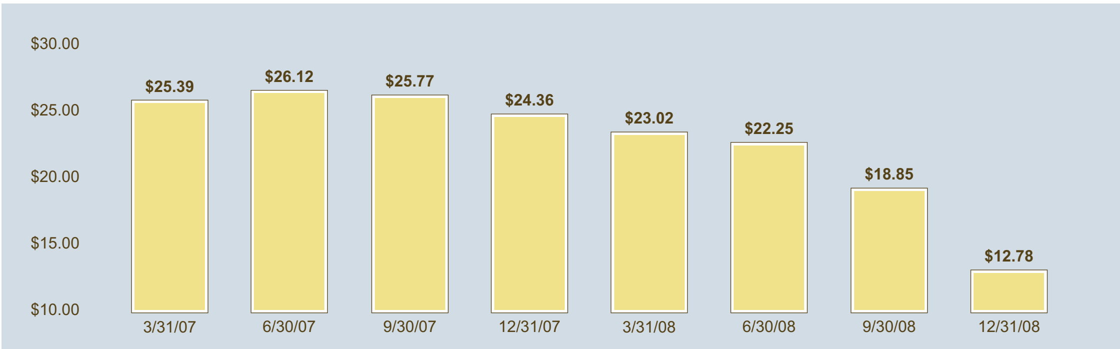
In connection with the formation of KPE and the initial offering of its common units, affiliates of KKR contributed $75.0 million in cash to KPE and the Investment Partnership, of which $65.0 million was contributed to KPE in exchange for common units and $10.0 million was contributed to the Investment Partnership in respect of general partner interests in the Investment Partnership. In addition, KPE entered into an investment agreement with KKR pursuant to which KKR agreed to cause its affiliates to reinvest in KPE 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 are made in respect of the carried interests and incentive distribution rights.

Net Asset Value and Returns

As of December 31, 2008, KPE's net asset value ("NAV") was $2,618.7 million. KPE's NAV was primarily comprised of the $2,623.0 million value of its investments in 100% of the limited partner interests of the Investment Partnership as of December 31, 2008. From KPE's formation in April 2006 to December 31, 2008, the decrease in net assets from operations was $2,127.9 million.

KPE's common units outstanding were 204,902,226 as of December 31, 2008 and 204,550,001 as of December 31, 2007.

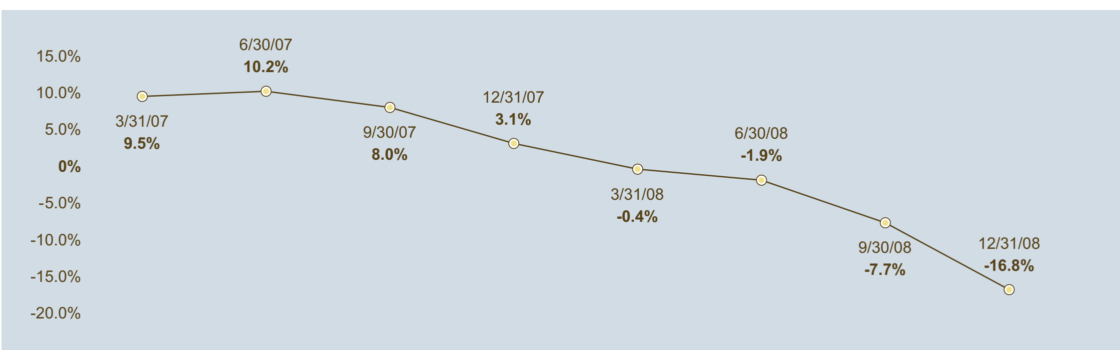
KPE's NAV per unit for the current and each of the previous seven quarters was as follows [1]:



(1) Represents the NAV net of distributions paid. KPE has paid the following distributions since its formation in April 2006:

Record Date	Payment Date	Cash Distribution Paid per Common Unit
December 1, 2006	December 15, 2006	$0.19
August 31, 2007	September 17, 2007	0.24
		$0.43

KPE's total cumulative annualized rate of return for the current and each of the previous seven quarters was as follows:



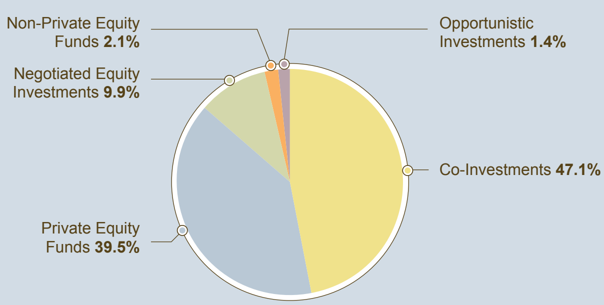
Investments Held by the Investment Partnership

As of December 31, 2008, the Investment Partnership's net asset value was $2,628.6 million, with $2,623.0 million allocated to KPE as its sole limited partner and $5.6 million allocated to the Associate Investor as its general partner. The Investment Partnership's net assets were comprised of the following, with amounts in thousands, as of December 31, 2008:

	Net Assets	Percent of Total
Private equity investments:		
Co-investments	$1,414,743	53.8%
Private equity funds	1,184,958	45.1
Negotiated equity investments	649,155	24.7
	3,248,856	123.6
Temporary investments	623,316	23.7
Revolving credit agreement	(951,214)	(36.2)
Long-term debt	(350,000)	(13.3)
Other, net	(46,131)	(1.8)
	2,524,827	96.0
Opportunistic investments:		
Non-private equity fund investment	62,583	2.4
Other—non-private equity investments	41,181	1.6
	103,764	4.0
Net assets	$2,628,591	100.0%

The aggregate value of the Investment Partnership's private equity fund investments and co-investments which are valued using quoted prices in active markets as of December 31, 2008 was $104.3 million.

The Investment Partnership holds investments in 78 companies, in over nine industry groups and based in 14 countries as of December 31, 2008. The Investment Partnership's portfolio allocation of private equity and opportunistic investments, net of the related financing of a negotiated equity investment, was as follows as of December 31, 2008:

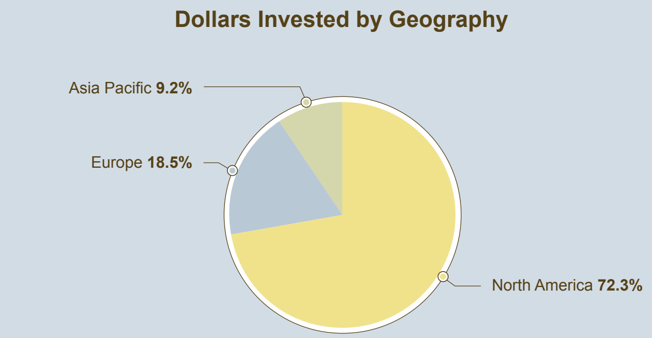


	Number of Companies
Private equity funds (1)	44
Negotiated equity investments	3
Opportunistic investments	3
Non-private equity fund (2)	28
Total	78

(1) The number of portfolio companies represented within the private equity funds includes the 13 co-investments.

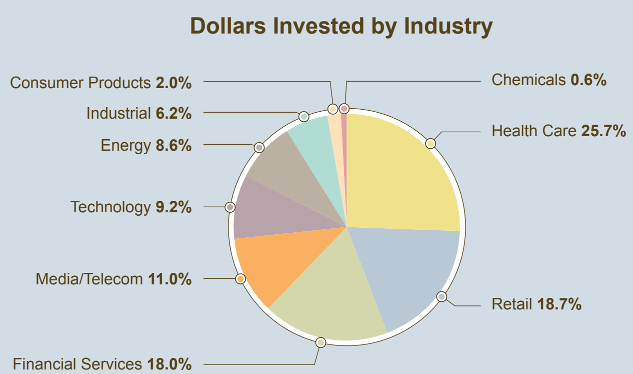
(2) There are 38 total companies represented in the non-private equity fund, 28 of which are incremental to number of companies included in private equity funds and opportunistic investments.

Investments, net of the related financing, held by the Investment Partnership, excluding temporary investments, were comprised of the following by geography as of December 31, 2008:



	Number of Countries	Number of Companies
North America	2	52
Europe	6	15
Asia Pacific	6	11
Total	14	78

Investments, net of related financing, held by the Investment Partnership, excluding temporary investments, were comprised of the following by industry group as of December 31, 2008:



	Number of Companies
Health Care	5
Retail	7
Financial Services	10
Media/Telecom	16
Technology	13
Energy	7
Industrial	11
Consumer Products	8
Chemicals	1
Total	78

The Investment Partnership's significant aggregate private equity investments in portfolio companies of KKR private equity funds, which includes the co-investment in the underlying portfolio company and the limited partner interest equal to the Investment Partnership's pro rata share of KKR's private equity fund investment, with fair values in excess of 3% of the Investment Partnership's net assets were as follows as of December 31, 2008, with amounts in thousands, except percentages:

	Cost	Fair Value	Fair Value as a Percentage of the Investment Partnership's Net Assets
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
Legrand Holdings S.A.	122,405	85,134	3.3
	2,713,256	2,076,610	79.0
Other portfolio companies(1)	1,633,964	523,091	19.9
	$4,347,220	$2,599,701	98.9%

(1) Other portfolio companies include aggregate private equity investments in 35 portfolio companies with individual fair values less than 3% of the Investment Partnership's net assets as of December 31, 2008.

Co-Investments held by the Investment Partnership

The Investment Partnership has the opportunity to make direct co-investments in portfolio companies. Co-investments provide KPE with an attractive option for deploying capital and permit increased exposure to potential changes in a portfolio company's value by making larger investments in portfolio companies than would otherwise be made by virtue of a fund partner's interest in a private equity fund. Co-investments have the effect of increasing the rate of return, or the risk of loss, associated with the investment. The Investment Partnership held the following co-investments in portfolio companies of KKR's private equity funds:

Company [1]	Fair Value of Investments as of December 31, 2008 (amounts in thousands)	Industry	Description
DOLLAR GENERAL	$275,000	Retail	A customer-driven distributor of everyday items, including basic consumable merchandise and other home, apparel and seasonal products, with more than 8,000 stores in 35 U.S. states.
HCA Hospital Corporation of America	200,000	Health Care	The largest and most diversified investor-owned health care services provider in the U.S. with hospitals and freestanding surgery centers in 20 U.S. states and England.
nielsen	180,000	Media	A global information and media company active in over 100 countries, with leading market positions and recognized brands in marketing information (ACNielsen), media information (Nielsen Media Research), business publications (Billboard, The Hollywood Reporter, Adweek) and trade shows.
Alliance Boots	175,123	Health Care	An international pharmacy-led health and beauty group operating in more than 15 countries (including associates) across the world.
BIOMET	160,000	Health Care	Designs and manufactures orthopedic medical devices and other products used primarily by surgeons and medical specialists, with distribution in over 70 countries and a product portfolio that encompasses orthopedic joint replacement products, dental reconstructive implants, fixation devices, spinal products and other applications.
Energy Future Holdings	140,000	Energy	Manager of a portfolio of competitive and regulated energy subsidiaries consisting of TXU Energy, a competitive electricity retailer, Luminant, a competitive power generation business, including mining, wholesale marketing and trading and construction and Oncor, a regulated electric distribution and transmission business.

Co-Investments held by the Investment Partnership (continued)

Company [1]	Fair Value of Investments as of December 31, 2008 (amounts in thousands)	Industry	Description
First Data	120,000	Financial Services	A leading provider of electronic commerce and payment solutions for merchants, financial institutions and card issuers globally, with operations in 38 countries, serving over 5 million merchant locations and 1,900 card issuers.
U.S. Foodservice	80,000	Retail	The second largest broadline foodservice distributor in the U.S., providing food and related products to independent restaurants, health care and hospitality customers, educational institutions and prominent multi-unit restaurant companies.
NXP founded by Philips	25,000	Technology	A leading semiconductor company that creates system solutions and software that deliver better sensory experiences in mobile phones, personal media players, TVs, set-top boxes, identification applications, cars and a wide range of other electronic devices.
KION Group	23,961	Industrial	A leading European manufacturer of forklift trucks and related services.
ProSiebenSat.1 Media AG	22,159	Media	Pan-European broadcasting group active in 13 European countries; Germany's largest TV broadcasting group.
CAPMARK	13,500	Financial Services	A leader in real estate finance, investments and services.
pagesjaunes	—	Media	The leading publisher of printed and online directories in France.
	$1,414,743		

(1) The logo and other trademarked or copyrighted materials presented with respect to each company named in this table are the property, trademarks and copyrighted materials of said company.

Private Equity Fund Investments

Private equity funds are managed pools of capital that principally make investments in non-public, non-actively traded common equity, preferred stock or mezzanine or distressed debt securities. In certain cases, private equity funds engage in the acquisition and delisting of public companies or invest in publicly listed companies. The private equity funds whereby the Investment Partnership makes its investments have a finite life and investment period and are managed by KKR.

The Investment Partnership's private equity fund investments were as follows as of December 31, 2008, with amounts in thousands:

	Fair Value	Unfunded Commitment
KKR 2006 Fund L.P.	$ 821,234	$449,213
KKR Millennium Fund L.P.	132,084	—
KKR European Fund, Limited Partnership	128,298	—
KKR Asian Fund L.P.	49,259	218,943
KKR European Fund II, Limited Partnership	49,032	—
KKR European Fund III, Limited Partnership	5,051	291,192
	$1,184,958	$959,348

KKR 2006 Fund L.P. | The KKR 2006 Fund L.P. is one of the largest private equity funds ever raised and was formed to make private equity investments in the United States and Canada, although the fund is permitted to invest up to 25% of capital in other jurisdictions. The investment period for the KKR 2006 Fund commenced in September 2006 and will remain open for a period of up to six years, unless terminated earlier in accordance with the fund's governing documents.

KKR Millennium Fund L.P. | The KKR Millennium Fund L.P. was formed to make private equity investments in the United States and Canada, although the fund is permitted to invest up to 20% of capital in other jurisdictions. The investment period for the KKR Millennium Fund commenced in December 2002 and expired in December 2008. From the inception of the Investment Partnership's investment through December 31, 2008, the KKR Millennium Fund has generated an IRR of (17.0)% and a multiple of invested capital of 0.8 times, which includes the sale of selected limited partner interests through secondary sales during the second quarter of 2008. Past performance is no guarantee of future results. The Investment Partnership's calculation during its holding period of the foregoing internal rate of return ("IRR") and multiple of invested capital is not necessarily representative of the overall performance of the KKR Millennium Fund.

KKR European Fund, Limited Partnership | The KKR European Fund, Limited Partnership was formed to make private equity investments primarily in Europe, although the fund was permitted to invest in other jurisdictions (excluding the United States and Canada). The investment period for the KKR European Fund commenced in December 1999 and ended in November 2005. From the inception of the Investment Partnership's investment through December 31, 2008, the KKR European Fund has generated an IRR of 4.0% and a multiple of invested capital of 1.1 times. Past performance is no guarantee of future results. The Investment Partnership's calculation during its holding period of the foregoing IRR and multiple of invested capital is not necessarily representative of the overall performance of the KKR European Fund.

KKR Asian Fund L.P. | The KKR Asian Fund L.P. was formed to make private equity investments in Asia. The investment period for the KKR Asian Fund commenced in July 2007 and will remain open for a period of up to six years, unless terminated earlier in accordance with the fund's governing documents.

KKR European Fund II, Limited Partnership | The KKR European Fund II, Limited Partnership was formed to make private equity investments primarily in Europe, although the fund is permitted to invest in other jurisdictions (excluding the United States and Canada). The investment period for the KKR European Fund II commenced in November 2005 and will remain open for a period of up to six years, unless terminated earlier in accordance with the fund's governing documents. From the inception of the Investment Partnership's investment through December 31, 2008, the KKR European Fund II has generated an IRR of (29.1)% and a multiple of invested capital of 0.7 times. Past performance is no guarantee of future results. The Investment Partnership's calculation during its holding period of the foregoing IRR and multiple of invested capital is not necessarily representative of the overall performance of the KKR European Fund II.

KKR European Fund III, Limited Partnership | The KKR European Fund III, Limited Partnership was formed to make private equity investments primarily in Europe (including Turkey), although the fund is permitted to invest in the Russian Federation, the countries of the Middle East and the Republic of South Africa, subject to certain limitations in the fund's governing documents. The investment period for the KKR European Fund III commenced in March 2008 and will remain open for a period of up to six years, unless terminated earlier in accordance with the fund's governing documents.

Calculation of IRR and Multiple of Invested Capital | The foregoing IRRs measure the aggregate annual compounded returns generated by a fund's investments over the Investment Partnership's holding period. The net IRRs were calculated after giving effect to the allocation of realized and unrealized returns on a fund's investments to the fund's general partner pursuant to a carried interest and the payment of any applicable management fees. These amounts measure returns based on amounts that have or, if distributed, would be paid to the Investment Partnership. IRRs were computed using what is known as a "dollar-weighted" IRR, which takes into account the timing of cash flows and amounts invested at any given time.

The foregoing multiples of invested capital measure the aggregate returns generated by a fund's investments in absolute terms. The multiples of invested capital were calculated over the Investment Partnership's holding period by adding together the total realized and unrealized values of a fund's investments and dividing by the total amount of capital invested by the fund. Such amounts give effect to the allocation of any realized and unrealized returns on a fund's investments to the fund's general partner pursuant to a carried interest and the payment of any applicable management fees.

In all cases, the realized and unrealized values of a fund's investments were calculated using the methodologies described elsewhere in this report under "Management's Overview—Application of Critical Accounting Policies, Valuation of Limited Partner Interests and Investments."

IRRs and multiples of invested capital were calculated for private equity funds that have an investment period that has been open for at least 30 months. Past performance is no guarantee of future results.

Portfolio of Investments

The Investment Partnership's portfolio of investments in the private equity funds shown below was as follows as of December 31, 2008:

Portfolio Company	Industry	Country	KKR 2006 Fund	KKR European Fund	KKR Millennium Fund	KKR European Fund II	KKR Asian Fund	KKR European Fund III
Accellent Inc.	Health Care	United States			X			
Alliance Boots GmbH	Health Care	United Kingdom	X			X		
Aricent Inc.	Technology	India			X			
A.T.U. Auto-Teile-Unger Holding GmbH	Retail	Germany	X	X	X	X		
Avago Technologies Limited.	Technology	Singapore		X	X	X		
AVR Bedrijven N.V.	Industrial	Netherlands			X	X		
Bharti Infratel Limited	Telecom	India	X				X	
Biomet, Inc.	Health Care	United States	X					
BIS Industries Limited	Industrial	Australia			X	X		
Capmark Financial Group Inc.	Financial Services	United States			X			
Dollar General Corporation	Retail	United States	X					
Energy Future Holdings Corp.	Energy	United States	X					
First Data Corporation	Financial Services	United States	X					
Harman International Industries, Incorporated	Consumer Products	United States	X					
HCA Inc.	Health Care	United States	X		X			
Jazz Pharmaceuticals, Inc.	Health Care	United States			X			
KION Group GmbH	Industrial	Germany	X			X		
KKR Debt Investors 2006 S.à r.l.	Financial Services	United States	X					
KSL Holdings – Hotel del Coronado	Hotel/Leisure	United States			X			
Laureate Education, Inc.	Consumer Products	United States	X					
Legg Mason, Inc.	Financial Services	United States	X					
Legrand Holdings S.A.	Industrial	France		X	X			
Ma Anshan Modern Farming Co. Ltd.	Consumer Products	China	X				X	
Masonite International Corporation	Industrial	Canada			X			
Maxeda B.V.	Retail	Netherlands		X	X			
MMI Holdings Limited	Technology	Singapore	X				X	
The Nielsen Company B.V.	Media	United States			X			
Northgate Information Solutions Limited	Technology	United Kingdom	X			X		X
NXP B.V.	Technology	Netherlands	X		X	X		
PagesJaunes Groupe S.A.	Media	France			X	X		
ProSiebenSat.1 Media AG	Media	Germany	X			X		
Rockwood Holdings, Inc.	Chemicals	Germany		X	X			
Sealy Corporation	Consumer Products	United States			X			
Seven Media Group	Media	Australia	X			X		
SunGard Data Systems, Inc.	Technology	United States			X			
Tarkett S.A.	Industrial	France	X			X		
TDC A/S	Telecom	Denmark			X	X		
Tianrui Group Cement Co., Ltd.	Industrial	China	X				X	
Toys "R" Us, Inc.	Retail	United States			X			
U.N Ro-Ro Isletmeleri A.S.	Industrial	Turkey	X			X		
U.S. Foodservice, Inc.	Retail	United States	X					
Unisteel Technology Limited	Technology	Singapore	X				X	
Visant Corporation	Media	United States			X			
Yageo Corporation	Technology	Taiwan	X				X	

Negotiated Equity Investments

Negotiated equity investments are investments significantly negotiated by KKR in equity or equity-linked securities. The Investment Partnership's negotiated equity investments were as follows:

Company [(1)]	Fair Value of Investments as of December 31, 2008 (amounts in thousands)	Industry	Description
Sun microsystems	$500,500	Technology	A singular vision – "The Network Is The Computer" – guides Sun in the development of technologies that power the world's most important markets. Sun's philosophy of sharing innovation and building communities is at the forefront of the next wave of computing: the Participation Age. Sun can be found in more than 100 countries and on the Web at http://sun.com.
Orico	148,655	Financial Services	Orient Corporation ("Orico") is one of the largest consumer credit companies in Japan.
aveos	—	Industrial	Aero Technical Support & Services S.à r.l. ("Aveos") is our holding company for Aveos Fleet Performance Inc. (formerly known as ACTS or Air Canada Technical Services), a Canadian aircraft maintenance, repair and overhaul company.
	$649,155		

(1) The logo and other trademarked or copyrighted materials presented with respect to each company named in this table are the property, trademarks and copyrighted materials of said company.

Opportunistic Investments

Opportunistic investments are any investments identified by KKR in the course of its business other than private equity or temporary investments. Opportunistic investments include public equities, fixed income investments and derivative instruments. The opportunistic investment approach focuses on achieving attractive IRRs and multiples of invested capital by selecting fundamental-driven investment opportunities, performing prudent due diligence when making investment decisions, subjecting investments to regular monitoring and oversight and making informed buy and sell decisions when realizing investments. The Investment Partnership held the following opportunistic investments, with amounts in thousands:

	Fair Value of Investments as of December 31, 2008 (amounts in thousands)
Fixed income investments	$40,109
Public equities – common stock	1,072
	$41,181

Additionally, the Investment Partnership may also seek to employ strategic hedging transactions to mitigate selected risk exposures, such as pairing trades and writing or buying options. Whether part of a hedging transaction or a fundamental transaction in its own right, securities sold short represent obligations of the 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 may involve market risks in excess of the amount currently reflected in the Investment Partnership's consolidated statement of assets and liabilities. As of December 31, 2008, the fair value of securities sold short, not yet purchased was $1.9 million.

Non-Private Equity Fund Investments

KKR Strategic Capital Institutional Fund, Ltd. ("SCF") is a KKR opportunistic credit fund principally investing in global debt securities alongside funds managed by investment professionals affiliated with KKR Asset Management ("KAM"), formerly referred to as KKR Fixed Income. Established in August 2006, SCF follows an investment program substantially similar to such funds managed by affiliates of KAM. Its strategy is to generate leveraged risk-adjusted returns while minimizing the risk of capital loss by making strategic investments. SCF invests principally in public and private corporate debt and equity, as well as long and short credit derivative positions.

Investments made by SCF were comprised of the following, with amounts in thousands:

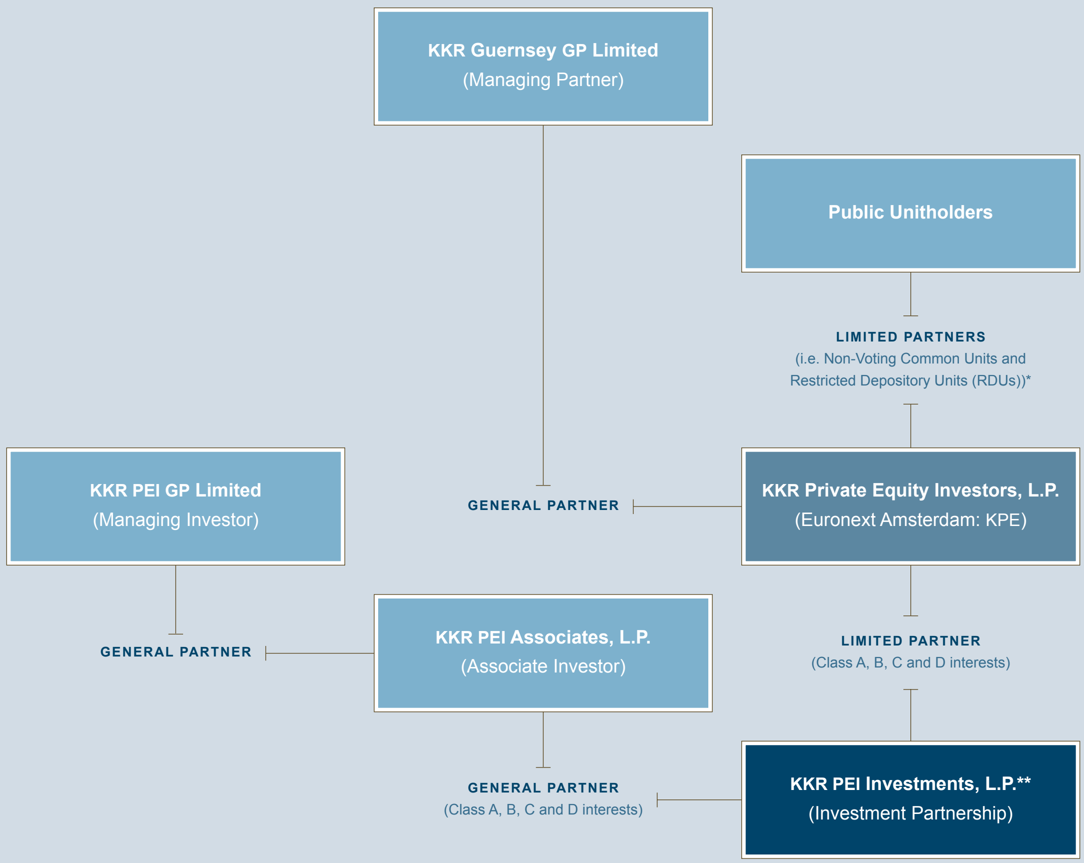
	Fair Value of Investments as of December 31, 2008
Investment in Strategic Capital Holdings I, L.P., at fair value	$56,957
Special investments, at fair value	5,626
	$62,583

Strategic Capital Holdings I, L.P. ("SCH") is a shared investment partnership formed in the second quarter of 2007, of which SCF owns approximately 14.0%. SCF's investment in SCH was comprised of the following allocated portion of net assets held by SCH, with amounts in thousands:

	December 31, 2008
Assets:	
Cash and cash equivalents	$ 2,525
Restricted cash and cash equivalents	36,259
Securities, at fair value	5,310
Private equity investments, at fair value	369
Corporate loans, at fair value	6,277
Derivative assets	7,661
Collateralized loan obligation junior notes in affiliates	27,259
Reverse repurchase agreements	5,344
Interest receivable	3,664
Other assets	530
Total assets	95,198
Liabilities:	
Repurchase agreements	1,065
Interest payable	237
Securities sold, not yet purchased, at fair value	5,238
Derivative liabilities	22,874
Other payables	8,827
Total liabilities	38,241
Net assets	$56,957

Ownership, Organizational and Investment Structure

The following chart summarizes the ownership, organizational and investment structure of our partnership. This chart should be read in conjunction with the overview of our partnership within "Operating and Financial Review" included elsewhere within this report.



* These non-voting common units and related restricted depositary units are subject to a number of ownership and transfer restrictions discussed under "Common Units" below.

** Investments may be held directly or indirectly through one or more subsidiaries not reflected in this chart.

Common Units

As of December 31, 2008, KPE had 204,902,226 common units outstanding. KPE's common units represent limited partner interests in its partnership and are traded under the symbol "KPE" on Euronext Amsterdam by NYSE Euronext ("Euronext Amsterdam"), the regulated market of Euronext Amsterdam N.V. We have 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.

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 KPE'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, KPE'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 KPE'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 KPE'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.kkrprivateequityinvestors.com.

KPE is subject to the supervision of GFSC and market conduct supervision by the Authority for the Financial Markets in the Netherlands.

KPE's market price per common unit was as follows:

	Market Price per Common Unit[1]
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
For the Year Ended December 31, 2007:	
As of December 31, 2007	$18.16
As of September 30, 2007	19.50
As of June 30, 2007	22.50
As of March 31, 2007	24.25

(1) The market price is 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.

As of February 27, 2009, the closing market price per common unit was $2.25.

One or more investment funds that are managed by KKR may invest from time to time in KPE's common units. As of February 27, 2009, these funds owned 4,667,166 of KPE's common units. On March 31, 2008, KPE issued 352,225 common units to an affiliate of KKR for an aggregate purchase price of $4.4 million in accordance with the investment agreement. See Note 9, "Relationships with KKR and Related Party Transactions—Other" of KPE's financial statements included elsewhere in the financial report.

Directors and Advisors

The board of directors of the Managing Partner consists of Messrs. Henry R. Kravis, George R. Roberts, Christopher M. W. Hill and Remmert J. Laan. Messrs. Kravis and Roberts are the co-founders of KKR. Messrs. Hill and Laan are independent directors. In January 2009, Mr. Gérard Lamarche resigned from the board of directors. The Nominating and Corporate Governance Committee of KKR Guernsey GP Limited has undertaken a search for a new independent Director to replace Mr. Lamarche. The address of each of these individuals is c/o KKR Guernsey GP Limited, Trafalgar Court, Les Banques, St. Peter Port, Guernsey GY1 3QL, Channel Islands.

The board of directors of the Managing Investor consists of Messrs. Perry Golkin, Scott C. Nuttall and William J. Janetschek. Messrs. Golkin, Nuttall and Janetschek are executives of KKR. The address of each of these individuals is c/o KKR PEI GP Limited, Trafalgar Court, Les Banques, St. Peter Port, Guernsey GY1 3QL, Channel Islands.

Northern Trust International Fund Administration Services (Guernsey) Limited has been retained to serve as the Guernsey administrator for each of KPE and the Investment Partnership. The address of Northern Trust International Fund Administration Services (Guernsey) Limited is Trafalgar Court, Les Banques, St. Peter Port, Guernsey GY1 3QL, Channel Islands.

Deloitte LLP (formerly Deloitte & Touche LLP) has been retained to serve as the independent auditors of each of KPE and the Investment Partnership. Deloitte & Touche LLP changed its name to Deloitte LLP on December 1, 2008. The address of Deloitte LLP is Regency Court, Glategny Esplanade, St. Peter Port, Guernsey GY1 3HW, Channel Islands.

KKR provides investment management, operational, financial and other services to KPE, the Investment Partnership, their general partners and affiliates under a services agreement. The address of KKR is 9 West 57th Street, New York, New York 10019, United States.

Statements of Responsibility

The portions of this financial report that relate to KPE, including the financial statements and other financial information of KPE 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 KPE as of the end of the fiscal period and of the profit or loss for such period, as well as to prepare such financial statements in accordance with applicable Dutch and Guernsey laws and accounting principles generally accepted in the United States of America ("U.S. GAAP").

The portions of this financial report that relate to the Investment Partnership, including the consolidated financial statements and other financial information of the 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 Investment Partnership as of the end of the fiscal period and of the profit or loss for such period, 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.

Notice to Investors

KPE may invest, indirectly through the Investment Partnership 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 KPE 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 KPE 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 KPE portfolio that may be directly or indirectly invested in commodity futures and/or options thereon. The Exemption also requires that the common units of KPE 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 at all times to the supervision of the Associate Investor or the applicable general partner of another 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

This report contains certain forward-looking statements. 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, liquidity and results of operations 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 include, but are not limited to:

- our investments may be aggressive, speculative or concentrated in a limited number of assets and, accordingly, subject to greater risks and volatility when compared with other investments;
- 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;
- we have a limited operating history and some of our investment objectives differ from the investment objectives that historically have been pursued by KKR;

- factors affecting our ability to successfully implement our investment strategies, including, but not limited to, factors affecting KKR's ability to identify a sufficient number of appropriate investments, ability to execute investments at attractive prices, ability to execute our hedging strategies and the capacity to commit to newly raised investment funds sponsored by KKR;
- factors affecting capital management, including, but not limited to, the rate at which we are able to deploy our capital, as and when available, and to realize our investments, and the rates of return and multiples of invested capital generated by our investments;
- factors affecting our investments, 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 our ability to monetize the unrealized values of investments that are included in the Investment Partnership's consolidated statements of assets and liabilities;
- our dependence on KKR's continued involvement in our business and reliance on certain polices of KKR; KKR's willingness to continue to sponsor new investment funds; and KKR's ability to retain and attract key investment professionals and other individuals;
- factors affecting our financial condition and liquidity and the financial condition and liquidity of the Investment Partnership, and our and its access to, or sources of, capital or financing, as and when needed to fund our commitments, debt obligations, expenses and other requirements including, but not limited to:
    - factors affecting the Investment Partnership'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 our underlying investment funds and our portfolio investments in a manner that allows us to fund our 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, our dependence on KKR for 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; and
- the risks, uncertainties and other factors described elsewhere in this report, including, but not limited to, those identified under "Management's Overview."

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.

MANAGEMENT'S OVERVIEW

Basis of Presentation

KPE's financial statements and the consolidated financial statements of the Investment Partnership were prepared in accordance with U.S. GAAP and are presented in U.S. dollars. On October 16, 2007, KPE received a letter from the Netherlands Authority for the Financial Markets ("AFM") in which the AFM granted KPE special dispensation from the requirement to prepare financial statements in accordance with Dutch GAAP and International Financial Reporting Standards ("IFRS") so long as our financial statements are prepared in accordance with U.S. GAAP. Prior to the receipt of this letter, KPE's financial statements and the consolidated financial statements of the Investment Partnership were prepared in accordance with U.S. GAAP pursuant to a temporary approval from the AFM.

We utilize a reporting schedule comprised of four three-month quarters with an annual accounting period that ends on December 31. Our quarterly periods end on March 31, June 30, September 30 and December 31. The financial results presented herein include activity for the quarters and years ended December 31, 2008 and December 31, 2007.

KPE operates through one reportable business segment for management reporting purposes.

Business Environment

Global capital markets continued to experience duress during the fourth quarter of 2008 as the contraction brought on by the global financial and economic crisis accelerated. During the fourth quarter, the valuations of equity and debt securities continued to decline; credit remained generally constricted and credit markets weak; consumer spending deteriorated; home prices continued to fall; unemployment rates rose; equity market volatility levels remained historically elevated; and financial intermediation was challenging. We anticipate that worldwide economies and capital markets will remain under stress for the foreseeable future as the investment community works with governmental and regulatory bodies to implement solutions to the credit crisis and restore confidence in global financial systems. As a result, sources of liquidity may be not only more difficult, but also impossible to obtain in the current market environment.

In addition, subsequent to December 31, 2008 and through February 27, 2009, there has been a further decline in the global economy and capital markets. Until the close of the first quarter and the completion of the first quarter valuation process, KPE and the Investment Partnership will not know the exact impact of this decline on first quarter valuations or results of operations. The state of the financial markets may also adversely impact other aspects of the business, operations, investments or prospects of KPE and the Investment Partnership in ways that are not currently foreseeable.

Investment Income and Gain/Loss on Investments

As described below, under "Application of Critical Accounting Policies - Non-Consolidation of Investment Partnership," because the assets of the Investment Partnership are not consolidated in our financial statements, the only investments that we record as assets are limited partner interests in the Investment Partnership. As a result, our investment income (loss) is primarily comprised of our proportionate share of the Investment Partnership's investment income, net of expenses, and income related to our own cash management activities. Income is recorded as earned.

We also record our proportionate share of the Investment Partnership's income in the form of realized gains or losses and unrealized appreciation or depreciation. At the end of each quarterly accounting period when investments are valued, any new unrealized appreciation or depreciation in the value of those investments impacts the change in net assets resulting from operations during the period. Although the Managing Investor, with the assistance of KKR, determines the fair value of each 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 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. See "Application of Critical Accounting Policies - Valuation of Limited Partner Interests and Investments" below. The value of our investments in limited partner interests in the Investment Partnership relate directly to the underlying value of the Investment Partnership's net asset value.

The assets of the Investment Partnership generally generate income in the form of capital gains, dividends and interest. The 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 the investments are valued. When an investment carried as an asset is sold and a resulting gain or loss is realized, including but not limited to, any related gain or loss from foreign currency transactions, an accounting entry is made to reverse any unrealized appreciation or depreciation that has previously been 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.

Operating Expenses

The results of operations of the Investment Partnership are not consolidated in our financial statements. However, we record our proportionate share of the Investment Partnership's operating expenses. Our operating expenses are limited to the expenses that we directly incur in connection with the operation of our partnership. These expenses consist primarily of our allocated share of the total management fee that is payable under the services agreement, if any, expenses of KKR that are attributable to our operations and reimbursable under the services agreement, professional fees, the directors' fees and expenses that our Managing Partner pays to its independent directors and other administrative costs.

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

Operating expenses of the Investment Partnership consist primarily of its allocated share of the management fees that are payable under the services agreement, incentive fees incurred by SCF, if any, fees and expenses associated with the Investment Partnership's credit agreement, other interest expense, dividend expense related to securities sold short, the expenses of KKR that are directly attributable to the operations of the Investment Partnership and reimbursable under the services agreement, professional fees and other administrative costs.

(This space has been left blank intentionally.)

Operating Results of KPE

The following table sets forth KPE's operating results for the quarters and years ended December 31, 2008 and December 31, 2007, with amounts in thousands:

	Quarter Ended		Year Ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Net investment income (loss) allocated from the Investment Partnership:				
Investment income	$ 4,742	$ 16,776	$ 45,277	$ 126,540
Expenses	18,704	36,497	109,934	100,707
	(13,962)	(19,721)	(64,657)	25,833
Investment income—interest income	1	14	88	70
Expenses—General and administrative expenses	5,432	2,505	21,605	6,874
Net investment income (loss)	(19,393)	(22,212)	(86,174)	19,029
Realized and unrealized gain (loss) from investments and foreign currency allocated from the Investment Partnership:				
Net realized gain (loss)	(46,153)	(8,222)	(104,356)	113,196
Net change in unrealized depreciation	(1,178,079)	(259,378)	(2,177,581)	(136,359)
Net loss on investments and foreign currency transactions	(1,224,232)	(267,600)	(2,281,937)	(23,163)
Net decrease in net assets resulting from operations	$ (1,243,625)	$ (289,812)	$ (2,368,111)	$ (4,134)

Operating Results of KPE for the Quarters Ended December 31, 2008 and December 31, 2007

Net Investment Loss Allocated from the Investment Partnership

Net investment loss allocated from the Investment Partnership is generally comprised of our portion of the Investment Partnership's income and expenses, which include interest and dividend income, management fees, incentive fees, interest expense, dividend expense and general and administrative expenses. During the quarters ended December 31, 2008 and December 31, 2007, the net investment loss allocated from the Investment Partnership was $14.0 million and $19.7 million, respectively. See "Consolidated Operating Results of the Investment Partnership" below.

Investment Income

During the quarters ended December 31, 2008 and December 31, 2007, 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 December 31, 2008 and December 31, 2007 were $5.4 million and $2.5 million, respectively, which included fees for professional services, fees and expenses of our Managing Partner's board of directors and other administrative costs. During the quarter ended December 31, 2008, general and administrative expenses included professional fees related to the process surrounding the Transaction.

Net Loss on Investments and Foreign Currency Transactions Allocated from the Investment Partnership

During the quarters ended December 31, 2008 and December 31, 2007, we recorded a net realized loss of $46.2 million and $8.2 million, respectively. Additionally, we recorded a net change in unrealized depreciation of $1,178.1 million and $259.4 million during the quarters ended December 31, 2008 and December 31, 2007, respectively. The net realized loss and net change in unrealized depreciation was based on KPE's allocated portion of the Investment Partnership's net loss on investments and foreign currency transactions. See "Consolidated Operating Results of the Investment Partnership" below.

Net Decrease in Net Assets Resulting from Operations

During the quarters ended December 31, 2008 and December 31, 2007, the net decrease in net assets resulting from operations was $1,243.6 million and $289.8 million, respectively. KPE's total return for the quarters ended December 31, 2008 and December 31, 2007 was (32.2)% and (5.5)%, respectively, and (127.7)% and (21.7)%, respectively, on an annualized basis.

Operating Results of KPE for the Years Ended December 31, 2008 and December 31, 2007

Net Investment Income (Loss) Allocated from the Investment Partnership

During the year ended December 31, 2008, the net investment loss allocated from the Investment Partnership was $64.7 million, compared to net investment income of $25.8 million allocated from the Investment Partnership during the year ended December 31, 2007. See "Consolidated Operating Results of the Investment Partnership" below.

Investment Income

During the years ended December 31, 2008 and December 31, 2007, investment income of $0.1 million represented interest income from cash management activities.

General and Administrative Expenses

General and administrative expenses during the years ended December 31, 2008 and December 31, 2007 were $21.6 million and $6.9 million, respectively, which included fees for professional services, fees and expenses of our Managing Partner's board of directors and other administrative costs. During the year ended December 31, 2008, general and administrative expenses also included professional fees related to the process surrounding the Transaction.

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

During the year ended December 31, 2008, we recorded a net realized loss of $104.4 million and net change in unrealized depreciation of $2,177.6 million based on KPE's allocated portion of the Investment Partnership's net loss on investments and foreign currency transactions. During the year ended December 31, 2007, we recorded a net realized gain of $113.2 million and net change in unrealized depreciation of $136.4 million based on KPE's allocated portion of the Investment Partnership's net gain on investments and foreign currency transactions. See "Consolidated Operating Results of the Investment Partnership" below.

Net Decrease in Net Assets Resulting from Operations

During the year ended December 31, 2008 and December 31, 2007, the net decrease in net assets resulting from operations was $2,368.1 million and $4.1 million, respectively. KPE's total return for the years ended December 31, 2008 and December 31, 2007 was (47.5)% and (0.1)%, respectively.

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

During the quarters and years ended December 31, 2008 and December 31, 2007, the change in net assets allocated from the Investment Partnership to KPE was as follows, with amounts in thousands:

	Quarter Ended		Year Ended	
	December 31, 2008	**December 31, 2007**	**December 31, 2008**	**December 31, 2007**
Net increase (decrease) in net assets resulting from operations of the Investment Partnership	$ (1,240,760)	$ (287,891)	$ (2,351,387)	$ 2,773
Management fees incurred by the Investment Partnership (100% allocated to the limited partner)	4,759	12,079	43,057	46,629
Net increase (decrease) in net assets resulting from operations before management fees incurred by the Investment Partnership	(1,236,001)	(275,812)	(2,308,330)	49,402
Limited partner interest percentage (rounded)	99.8%	99.8%	99.8%	99.8%
	(1,233,435)	(275,242)	(2,303,537)	49,299
Management fees incurred by the Investment Partnership and allocated to the limited partner	4,759	12,079	43,057	46,629
Net increase (decrease) in net assets resulting from operations of the Investment Partnership allocated to KPE	$ (1,238,194)	$ (287,321)	$ (2,346,594)	$ 2,670
The allocation of the Investment Partnership's change in net assets consisted of the following, as reflected on KPE's statement of operations:				
Net investment income (loss)	$ (13,962)	$ (19,721)	$ (64,657)	$ 25,833
Net loss on investments and foreign currency transactions	(1,224,232)	(267,600)	(2,281,937)	(23,163)
	$ (1,238,194)	$ (287,321)	$ (2,346,594)	$ 2,670

Consolidated Operating Results of the Investment Partnership

The following table sets forth the consolidated operating results of the Investment Partnership for the quarters and years ended December 31, 2008 and December 31, 2007, with amounts in thousands:

	Quarter Ended		Year Ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Investment income:				
Interest income, net of withholding taxes of $155, $0, $155 and $0, respectively	$ 4,587	$ 15,822	$ 36,250	$ 102,605
Dividend income, net of withholding taxes of $60, $361, $394 and $1,446, respectively	166	988	9,121	24,197
Total investment income	4,753	16,810	45,371	126,802
Expenses:				
Management fees	4,759	12,079	43,057	46,629
Incentive fees	—	30	—	956
Interest expense	13,068	22,894	61,843	48,557
Dividend expense	230	—	1,320	—
General and administrative expenses	677	1,543	3,855	4,677
Total expenses	18,734	36,546	110,075	100,819
Net investment income (loss)	(13,981)	(19,736)	(64,704)	25,983
Realized and unrealized gain (loss) from investments and foreign currency:				
Net realized gain (loss), net of withholding tax (benefit) of $0, $0, $(37) and $977, respectively	(46,249)	(8,239)	(104,573)	113,432
Net change in unrealized depreciation	(1,180,530)	(259,916)	(2,182,110)	(136,642)
Net loss on investments and foreign currency transactions	(1,226,779)	(268,155)	(2,286,683)	(23,210)
Net increase (decrease) in net assets resulting from operations	$ (1,240,760)	$ (287,891)	$ (2,351,387)	$ 2,773

Operating Results of the Investment Partnership for the Quarters Ended December 31, 2008 and December 31, 2007

Interest Income

During the quarters ended December 31, 2008 and December 31, 2007, interest income was $4.6 million and $15.8 million, respectively, which primarily represented interest on cash management activities. Interest was earned at an annualized weighted average rate of 1.3% during the quarter ended December 31, 2008 and 2.6% during the quarter ended December 31, 2007.

Dividend Income

During the quarters ended December 31, 2008 and December 31, 2007, dividend income was $0.2 million and $1.0 million, respectively, which represented dividends received from investments in public equities and from certain KKR portfolio companies.

Management Fees

During the quarters ended December 31, 2008 and December 31, 2007, management fees were $4.8 million and $12.1 million, respectively.

Incentive Fees

During the quarter ended December 31, 2007, incentive fees of less than $0.1 million were accrued related to SCF's investment performance. SCF did not incur incentive fee expense during the quarter ended December 31, 2008.

Interest Expense

During the quarters ended December 31, 2008 and December 31, 2007, interest expense of $13.1 million and $22.9 million, respectively, was incurred related primarily to the revolving credit facility and financing of the investment in Sun Microsystems, Inc. ("Sun").

Dividend Expense

During the quarter ended December 31, 2008, dividend expense of $0.2 million related to securities sold short. There was no dividend expense during the quarter ended December 31, 2007.

General and Administrative Expenses

During the quarters ended December 31, 2008 and December 31, 2007, general and administrative expenses were $0.7 million and $1.5 million, respectively, which were comprised primarily of fees for professional services.

Net Realized Loss from Investments and Foreign Currency Transactions

During the quarter ended December 31, 2008, the Investment Partnership recorded a net realized loss of $46.2 million, which was primarily comprised of $62.9 million from the sale of opportunistic investments in public equities, related derivative instruments and the partial sale of a fixed income investment and $21.7 million from the sale of investments by SCF, offset by a realized gain of $38.4 million related to the termination of certain transactions under forward foreign currency contracts.

During the quarter ended December 31, 2007, the Investment Partnership recorded a net realized loss of $8.2 million, which was comprised of $19.3 million from the sale of opportunistic investments in public equities and related derivative instruments, offset by a gain of $6.6 million from the sale of FL Selenia S.p.A. and the partial sale of Rockwood Holding, Inc. and $4.5 million from the sale of investments and related derivative instruments by SCF. The $6.6 million gain from the sale and partial sale of investments by KKR's private equity funds was comprised of the following, with amounts in thousands:

KKR European Fund II	$	3,275
KKR European Fund		2,229
KKR Millennium Fund..........................		1,084
	$	6,588

Net Change in Unrealized Depreciation on Investments and Foreign Currency Transactions

During the quarters ended December 31, 2008 and December 31, 2007, the net change in unrealized appreciation (depreciation) on investments and foreign currency transactions was as follows, with amounts in thousands:

	Quarter Ended December 31, 2008	Quarter Ended December 31, 2007
Opportunistic investments	$ 27,538	$ (42,372)
Temporary investments:		
Interest rate swaps	(8,314)	—
Foreign currency adjustments	16,609	10,627
	8,295	10,627
Co-investments:		
Dollar General Corporation	25,000	—
HCA Inc.	(100,000)	—
NXP B.V.	(100,000)	(65,336)
Capmark Financial Group Inc.	(94,500)	(27,000)
Alliance Boots GmbH	(91,993)	(9,360)
First Data Corporation	(80,000)	—
PagesJaunes Groupe S.A.	(74,041)	(28,897)
KION Group GmbH	(60,544)	2,771
Energy Future Holdings Corp.	(60,000)	—
Biomet, Inc.	(40,000)	—
The Nielsen Company B.V.	(40,000)	—
ProSiebenSat.1 Media AG	(26,983)	(53,938)
U.S. Foodservice, Inc.	(20,000)	—
Forward foreign currency exchange contracts	17,489	140
	(745,572)	(181,620)
Negotiated equity investments:		
Orient Corporation	(28,552)	67,586
Sun Microsystems, Inc.	(10,500)	(51,975)
Aero Technical Support & Services S.à r.l.(Aveos)	—	(3,034)
	(39,052)	12,577
Investments in private equity funds:		
KKR 2006 Fund	(227,029)	(5,690)
KKR Millennium Fund.	(45,975)	(21,394)
KKR European Fund	(43,286)	(19,982)
KKR European Fund II	(27,113)	(5,496)
KKR Asian Fund	(17,018)	(1,055)
KKR European Fund III	(2,641)	—
	(363,062)	(53,617)
Investments in a non-private equity fund	(68,677)	(5,511)
	$ (1,180,530)	$ (259,916)

The net change in unrealized 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 depreciation is recorded net of an accounting entry related to the reversal of net unrealized depreciation due to realizations.

During the quarter ended December 31, 2008, the net unrealized appreciation in opportunistic investments of $27.5 million was due primarily to the reversal of $45.1 million of previously recorded net unrealized depreciation due to the realization of losses on the sales of opportunistic investments, offset by a net decrease in the fair values of opportunistic investments held as of December 31, 2008.

The investment in Dollar General Corporation ("Dollar General") was marked from 1.0 times cost as of September 30, 2008 to 1.1 times as of December 31, 2008. The increase of $32.6 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in Dollar General during the quarter ended December 31, 2008 was primarily due to strong performance ahead of its comparable companies in terms of revenue and EBITDA growth driven by strong same-store sales growth and traction on key operating initiatives implemented by the company.

The investment in First Data Corporation ("First Data") was marked from 1.0 times cost as of September 30, 2008 to 0.6 times as of December 31, 2008. The decrease of $164.9 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in First Data during the quarter ended December 31, 2008 was primarily due to significantly lower trading multiples of publicly-traded comparable companies, as well as the impacts of the overall macroeconomic weakness on the company's near-term results.

The investment in Alliance Boots GmbH ("Alliance Boots") was marked on a British pounds sterling basis from 1.0 times cost as of September 30, 2008 to 0.8 times as of December 31, 2008. Including the impact of foreign currency translation, the investment was marked on a U.S. dollar basis from 0.9 times to 0.6 times as of December 31, 2008. The decrease of $128.5 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in Alliance Boots during the quarter ended December 31, 2008 was due, despite the company's strong operating performance, primarily to a decrease in the trading multiples of comparable companies and the decline of British pounds sterling versus other currencies, including U.S. dollars in which this investment is held, which resulted in negative foreign exchange translations during the quarter.

The investment in HCA Inc. ("HCA") was market from 1.2 times cost as of September 30, 2008 to 0.8 times as of December 31, 2008. The decrease of $121.4 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in HCA during the quarter ended December 31, 2008 was primarily due to a decrease in the trading multiples of comparable companies.

The investment in NXP B.V. ("NXP") was marked from 0.5 times cost as of September 30, 2008 to 0.1 times as of December 31, 2008. The decrease of $111.5 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in NXP during the quarter ended December 31, 2008 was primarily due to weak global semiconductor markets, resulting in declining valuations of comparable companies and lower sales at the company, as well as under-loading of its fabrication plants and as a consequence, lower gross margins.

The investment in Energy Future Holdings Corp. ("EFH") was marked from 1.0 times cost as of September 30, 2008 to 0.7 times as of December 31, 2008. The decrease of $109.8 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in EFH during the quarter ended December 31, 2008 was primarily due to a decrease in the value of Luminant's (a subsidiary of EFH) generation assets resulting from a decrease in the long-term outlook for natural gas, and therefore, power prices in Texas, as well as to a decrease in the trading multiples of comparable companies.

The investment in Capmark Financial Group Inc. ("Capmark") was marked from 0.8 times cost as of September 30, 2008 to 0.1 times as of December 31, 2008. The decrease of $106.4 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in Capmark during the quarter ended December 31, 2008 was primarily due to the continued impact of a difficult credit environment, a lack of liquidity in the commercial real estate market, troubled market conditions for loan securitizations and loan sales and declines in trading valuations of comparable companies.

During the quarter ended December 31, 2008, the Investment Partnership recorded net unrealized depreciation of $77.3 million related to its investment in PagesJaunes Group S.A. ("PagesJaunes"), which is held through a leveraged holding company. The $77.3 million decrease in the fair value of the Investment Partnership's co-investment and its pro rata share of private equity funds' investment in PagesJaunes during the quarter ended December 31, 2008 was based on a market quotation on a U.S. dollar basis as of December 31, 2008.

The investment in KION Group GmbH ("KION") was marked on a Euro basis from 0.7 times cost as of September 30, 2008 to 0.2 times as of December 31, 2008. Including the impact of foreign currency translation, the investment was marked on a U.S. dollar basis from 0.8 times to 0.2 times as of December 31, 2008. The decrease of $68.1 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in KION during the quarter ended December 31, 2008 was primarily due to a downward revision of the mid-term outlook for the company as a result of the deteriorated macroeconomic environment.

The investment in Biomet, Inc. ("Biomet") was marked from 1.0 times cost as of September 30, 2008 to 0.8 times as of December 31, 2008. The decrease of $61.0 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in Biomet during the quarter ended December 31, 2008 was primarily due to the decline in value of the company's publicly traded comparable companies, who have seen multiples compress largely as a function of company-specific execution issues and concern over the potential impact of a macroeconomic slowdown in the orthopedics category. In contrast to some of its competitors, operational performance at the company has remained strong.

The investment in The Nielsen Company B.V. ("Nielsen") was marked from 1.1 times cost as of September 30, 2008 to 0.9 times as of December 31, 2008. The decrease of $42.9 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in Nielsen during the quarter ended December 31, 2008 was due primarily to the contraction in trading multiples of publicly traded comparable companies and a more conservative outlook for the company, despite the company's continued record growth in both revenue and Adjusted EBITDA compared to the prior year.

The investment in U.S. Foodservice, Inc. ("U.S. Foodservice") was marked from 1.0 times cost as of September 30, 2008 to 0.8 times as of December 31, 2008. The decrease of $38.7 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in U.S. Foodservice during the quarter ended December 31, 2008 was due primarily to a decrease in the trading multiples of comparable companies, which have been challenged by the general downturn in the equity markets and from negative macroeconomic trends impacting the consumer.

The original investment of $220.7 million in ProSiebenSat.1 Media AG ("ProSieben") was marked on both a Euro and U.S. dollar basis from 0.1 times cost as of September 30, 2008 to nil as of December 31, 2008. During the fourth quarter of 2008, the Investment Partnership invested an additional $30.3 million in ProSieben. The new investment was marked to 0.8 times cost as December 31, 2008 on both a Euro and a U.S. dollar basis. Overall, the ProSieben investment remained at 0.1 times cost on both a Euro and U.S. dollar basis as of December 31, 2008. The total decrease of $30.6 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in ProSieben during the quarter ended December 31, 2008 was primarily due to significant multiple compression across the European free-to-air broadcasting sector, the adverse impact of the company's uncompetitive German ad sales model and a weaker outlook for the domestic German television advertising market due to the current financial and economic crisis.

The negotiated equity investments in Sun and Orient Corporation were valued based on reference assets for which market quotations were readily available, using period-end market prices of the respective reference asset, adjusted for one or more factors deemed relevant for the fair value of each investment.

The investments in the non-private equity fund were primarily in a shared investment partnership and were valued based on a combination of methods. The values of such investments were determined based on the type of asset and liability held by the shared investment partnership. Investments held by the non-private equity fund that were not included in the shared investment partnership were valued using fair value pricing where a market quotation was not readily available.

During the quarter ended December 31, 2008, the Investment Partnership recorded an accounting entry related to the realized sales of investments of $58.6 million to reverse net unrealized depreciation previously recorded. When an investment carried as an asset is sold or otherwise disposed of 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. See "Net Realized Gain (Loss) from Investments and Foreign Currency Transactions" above.

During the quarter ended December 31, 2007, the net change in unrealized depreciation related to opportunistic investments was primarily the result of mark-to-market adjustments in public equities. Net unrealized depreciation related to private equity fund investments and co-investments was primarily the result of a general net decrease in the value of portfolio companies underlying the investments, including a decrease in value of PagesJaunes, which is based on a market quotation. The net unrealized appreciation in the value of negotiated equity investments was due primarily to the increase in the fair value of Orient Corporation, offset by the decrease in the fair value of Sun, where the values of such investments were based on a reference asset for which a market quotation was readily available. The unrealized depreciation related to investments in a non-private equity fund was the result of a net decrease in the value of investments made by SCF. During the quarter ended December 31, 2007, the Investment Partnership recorded an accounting entry related to the realized sales of investments of $5.1 million to reverse net unrealized appreciation previously recorded.

Net Decrease in Net Assets Resulting from Operations

During the quarters ended December 31, 2008 and December 31, 2007, the net decrease in net assets resulting from operations was $1,240.8 million and $287.9 million, respectively. The Investment Partnership's total return, based on weighted average net assets, for the quarters ended December 31, 2008 and December 31, 2007 was (32.0)% and (5.4)%, respectively, and (127.4)% and (21.6)%, respectively, on an annualized basis. The Investment Partnership's returns by investment type were as follows:

	Quarter Ended	
	December 31, 2008	**December 31, 2007**
Opportunistic investments	(43.4)%	(14.1)%
Temporary investments	(2.1)	(2.4)
Co-investments	(33.6)	(8.1)
Negotiated equity investments	(17.1)	1.6
Private equity funds	(23.4)	(2.3)
Non-private equity fund	(59.2)	1.8

Operating Results of the Investment Partnership for the Years Ended December 31, 2008 and December 31, 2007

Interest Income

During the years ended December 31, 2008 and December 31, 2007, interest income was $36.3 million and $102.6 million, respectively, which primarily represented interest on cash management activities. Interest was earned at a weighted average rate of 1.3% during the year ended December 31, 2008 and 3.8% during the year ended December 31, 2007.

Dividend Income

During the years ended December 31, 2008 and December 31, 2007, dividend income was $9.1 million and $24.2 million, respectively, which primarily represented dividends received from certain KKR portfolio companies and from investments in public equities.

Management Fees

Management fees were $43.1 million and $46.6 million during the years ended December 31, 2008 and December 31, 2007, respectively.

Incentive Fees

During the year ended December 31, 2007, incentive fees of $1.0 million were accrued related to SCF's investment performance. SCF did not incur incentive fee expense during the year ended December 31, 2008.

Interest Expense

During the years ended December 31, 2008 and December 31, 2007, interest expense of $61.8 million and $48.6 million, respectively, was incurred related primarily to the revolving credit facility and financing of the investment in Sun.

Dividend Expense

During the year ended December 31, 2008, dividend expense of $1.3 million related to securities sold short. There was no dividend expense during the year ended December 31, 2007.

General and Administrative Expenses

During the years ended December 31, 2008 and December 31, 2007, general and administrative expenses were $3.9 million and $4.7 million, respectively, which were comprised primarily of fees for professional services.

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

During the year ended December 31, 2008, the Investment Partnership recorded a net realized loss of $104.6 million, which was comprised of $88.4 million from the sales of opportunistic investments in public equities, related derivative instruments and the partial sale of a fixed income investment, $23.6 million from the secondary sales of limited partner interests in the KKR 2006 Fund and the KKR Millennium Fund and $47.0 million from the sale of investments by SCF, offset by a realized gain of $38.4 million from the termination of certain transactions under forward foreign currency contracts, $16.0 million from the sale of Demag Holdings, S.à r.l., the partial sale of security holdings in Rockwood Holdings, Inc. and the final disposition of KSL Holdings – La Costa by KKR's private equity funds. The $16.0 million gain from the disposition by KKR's private equity funds was comprised of the following, with amounts in thousands:

KKR European Fund	$	14,995
KKR Millennium Fund.........................		1,002
	$	15,997

During the year ended December 31, 2007, the Investment Partnership recorded a net realized gain of $113.4 million, which was comprised of $88.0 million from the sale of the following portfolio companies: FL Selenia S.p.A., SBS Broadcasting S.A., KSL Recreation Holdings I LLC – La Costa Resort and Spa and ITC Holdings Corp., the partial sale of Demag Holdings S.à r.l., the partial sale of security holdings in Rockwood Holdings, Inc. and the recapitalization of Maxeda, $17.8 million from the sale of public equities and related derivative instruments and $7.6 million from the sale of investments and related derivative instruments by SCF. The $88.0 million gain from the disposition of investments by KKR's private equity funds was comprised of the following, with amounts in thousands:

KKR European Fund	$	71,504
KKR Millennium Fund.........................		13,051
KKR European Fund II		3,472
	$	88,027

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Net Change in Unrealized Depreciation on Investments and Foreign Currency Transactions

During the years ended December 31, 2008 and December 31, 2007, the net change in unrealized appreciation (depreciation) on investments and foreign currency transactions was as follows, with amounts in thousands:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Opportunistic investments	$ 8,261	$ (56,051)
Temporary investments:		
Interest rate swaps	(12,539)	—
Foreign currency adjustments	20,731	6,271
	8,192	6,271
Co-investments:		
Dollar General	25,000	—
PagesJaunes Groupe S.A.	(229,038)	(6,163)
NXP B.V.	(190,555)	(44,308)
ProSiebenSat.1 Media AG	(165,935)	(38,818)
Capmark Financial Group Inc.	(162,000)	40,500
Alliance Boots GmbH	(122,624)	(3,606)
KION Group GmbH	(101,170)	11,930
HCA Inc.	(100,000)	50,000
First Data Corporation	(80,000)	—
Energy Future Holdings Corp.	(60,000)	—
Biomet, Inc.	(40,000)	—
The Nielsen Company B.V.	(20,000)	—
U.S. Foodservice, Inc.	(20,000)	—
Forward foreign currency exchange contracts	44,782	(36,070)
	(1,221,540)	(26,535)
Negotiated equity investments:		
Sun Microsystems, Inc.	(167,650)	(33,014)
Aero Technical Support & Services S.à r.l. (Aveos)	(118,678)	(3,034)
Orient Corporation	(65,872)	25,028
	(352,200)	(11,020)
Investments in private equity funds:		
KKR Asian Fund	(15,743)	(1,055)
KKR 2006 Fund	(287,747)	3,180
KKR European Fund	(104,336)	(25,549)
KKR Millennium Fund.	(73,729)	(11,124)
KKR European Fund II	(47,299)	(2,241)
KKR European Fund III	(3,927)	—
	(532,781)	(36,789)
Investments in a non-private equity fund	(92,042)	(12,518)
	$ (2,182,110)	$ (136,642)

The net change in unrealized 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 depreciation is recorded net of an accounting entry related to the reversal of net unrealized depreciation due to realizations.

During the year ended December 31, 2008, the net unrealized appreciation in opportunistic investments of $8.3 million was due primarily to the reversal of $46.0 million of previously recorded net unrealized depreciation due to the realization of losses on the sales of opportunistic investments, offset by a net decrease in the fair values of opportunistic investments held as of December 31, 2008.

The investment in Dollar General was marked from 1.0 times cost as of December 31, 2007 to 1.1 times as of December 31, 2008. The increase of $32.6 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in Dollar General during the year ended December 31, 2008 was primarily due to strong performance ahead of its comparable companies in terms of revenue and EBITDA growth driven by strong same-store sales growth and traction on key operating initiatives implemented by the company.

During the year ended December 31, 2008, the Investment Partnership recorded net unrealized depreciation of $240.8 million related to its investment in PagesJaunes, which is held through a leveraged holding company. The $240.8 million decrease in the fair value of the Investment Partnership's co-investment and its pro rata share of private equity funds' investment in PagesJaunes during the year ended December 31, 2008 was based on a market quotation on a U.S. dollar basis as December 31, 2008.

The investment in NXP was marked from 0.9 times cost as of December 31, 2007 to 0.1 times as of December 31, 2008. The decrease of $211.4 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in NXP during the year ended December 31, 2008 was primarily due to weak global semiconductor markets, resulting in declining valuations of comparable companies and lower sales at the company, as well as under-loading of its fabrication plants and as a consequence, lower gross margins.

The original investment of $220.7 million in ProSieben was marked on a Euro basis from 0.7 times cost as of December 31, 2007 to nil as of December 31, 2008. Including the impact of foreign currency translation, the original investment was marked on a U.S. dollar basis from 0.8 times to nil as of December 31, 2008. During the fourth quarter of 2008, the Investment Partnership invested an additional $30.3 million in ProSieben. The new investment was marked to 0.8 times cost as December 31, 2008 on both a Euro and a U.S. dollar basis. Overall, the ProSieben investment was marked on a Euro basis from 0.7 times cost to 0.1 times and from 0.8 times to 0.1 times on a U.S. dollar basis as of December 31, 2008. The total decrease of $183.5 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in ProSieben during the year ended December 31, 2008 was primarily due to significant multiple compression across the European free-to-air broadcasting sector, the adverse impact of the company's uncompetitive German ad sales model and a weaker outlook for the domestic German television advertising market due to the current financial and economic crisis.

The investment in Capmark was marked from 1.3 times cost as of December 31, 2007 to 0.1 times as of December 31, 2008. The decrease of $182.0 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in Capmark during the year ended December 31, 2008 was primarily due to the continued impact of a difficult credit environment, a lack of liquidity in the commercial real estate market and declines in trading valuations of comparable companies.

The investment in Alliance Boots was marked on a British pounds sterling basis from 1.0 times cost as of December 31, 2007 to 0.8 times as of December 31, 2008. Including the impact of foreign currency translation, the investment was marked on a U.S. dollar basis from 1.0 times to 0.6 times as of December 31, 2008. The decrease of $170.5 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in Alliance Boots during the year ended December 31, 2008 was due, despite the company's strong operating performance, primarily to a decrease in the trading multiples of comparable companies and the decline of British pounds sterling versus other currencies, including U.S. dollars in which this investment is held, which resulted in negative foreign exchange translations during the year ended December 31, 2008.

The investment in First Data was marked from 1.0 times cost as of December 31, 2007 to 0.6 times as of December 31, 2008. The decrease of $164.9 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in First Data during the year ended December 31, 2008 was primarily due to significantly lower trading multiples of publicly-traded comparable companies, as well as the impacts of the overall macroeconomic weakness on the company's near-term results.

The investment in HCA was marked from 1.2 times cost as of December 31, 2007 to 0.8 times as of December 31, 2008. The decrease of $123.7 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in HCA during the year ended December 31, 2008 was primarily due to a decrease in the trading multiples of comparable companies.

The investment in Aero Technical Support & Services S.à r.l. ("Aveos") (formerly known as ACTS) was marked on both a Canadian dollar basis and a U.S. dollar basis from 1.0 times cost as of December 31, 2007 to nil as of December 31, 2008. The decrease of $118.7 million in the fair value of the Investment Partnership's negotiated equity investment in Aveos during the year ended December 31, 2008 was primarily due to lower realized and prospective airline maintenance volumes resulting from reduced airline flying hours and changes in carrier fleet configurations as carriers look to optimize fuel efficiency.

The investment in KION was marked on a Euro basis from 1.0 times cost as of December 31, 2007 to 0.2 times as of December 31, 2008. Including the impact of foreign currency translation, the investment was marked on a U.S. dollar basis from 1.1 times to 0.2 times as of December 31, 2008. The decrease of $112.6 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in KION during the year ended December 31, 2008 was primarily due to a significant decline in the valuation multiples for the company's material handling equipment peers and a downward revision of the mid-term outlook for the company as a result of the deteriorated macroeconomic environment.

The investment in EFH was marked from 1.0 times cost as of December 31, 2007 to 0.7 times as of December 31, 2008. The decrease of $109.8 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in EFH during the year ended December 31, 2008 was primarily due to a decrease in the value of Luminant's (a subsidiary of EFH) generation assets resulting from a decrease in the long-term outlook for natural gas, and therefore, power prices in Texas, as well as to a decrease in the trading multiples of comparable companies.

The investment in Biomet was marked from 1.0 times cost as of December 31, 2007 to 0.8 times as of December 31, 2008. The decrease of $61.0 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in Biomet during the year ended December 31, 2008 was primarily due to the decline in value of the company's publicly traded comparable companies, who have seen multiples compress largely as a function of company-specific execution issues and concern over the potential impact of a macroeconomic slowdown in the orthopedics category. In contrast to some of its competitors, operational performance at the company has remained strong.

The investment in U.S. Foodservice was marked from 1.0 times cost as of December 31, 2007 to 0.8 times as of December 31, 2008. The decrease of $38.7 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in U.S. Foodservice during the year ended December 31, 2008 was due primarily to a decrease in the trading multiples of comparable companies, which have been challenged by the general downturn in the equity markets and from negative macroeconomic trends impacting the consumer.

The investment in The Nielsen was marked from 1.0 times cost as of December 31, 2007 to 0.9 times as of December 31, 2008. The decrease of $21.6 million in the fair value of the Investment Partnership's co-investment and pro rata share of private equity funds' investment in Nielsen during the year ended December 31, 2008 was due primarily to the contraction in trading multiples of publicly traded comparable companies and a more conservative outlook for the company, despite the company's continued record growth in both revenue and Adjusted EBITDA compared to the prior year.

The negotiated equity investments in Sun and Orient Corporation were valued based on reference assets for which market quotations were readily available, using period-end market prices of the respective reference asset, adjusted for one or more factors deemed relevant for the fair value of each investment.

The fair value of the Investment Partnership's pro rata share of private equity funds' investment in Legrand Holdings S.A. declined $73.5 million during the year ended December 31, 2008, based on a market quotation on a U.S. dollar basis.

The investments in the non-private equity fund were primarily in a shared investment partnership and were valued based on a combination of methods. The values of such investments were determined based on the type of asset and liability held by the shared investment partnership. Investments held by the non-private equity fund that were not included in the shared investment partnership were valued using fair value pricing where a market quotation was not readily available.

During the year ended December 31, 2008, the Investment Partnership recorded an accounting entry related to the realized sales of investments of $67.3 million to reverse net unrealized depreciation previously recorded. The reversal of net unrealized depreciation primarily included $46.0 million related to realized sales of opportunistic investments, $33.7 million related to the unwinding of forward foreign currency exchange contracts related to certain co-investments, offset by the reversal of unrealized appreciation of $13.8 million related to the sale of investments by private equity funds. When an investment carried as an asset is sold or otherwise disposed of 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. See "Net Realized Gain (Loss) from Investments and Foreign Currency Transactions" above.

During the year ended December 31, 2007, the net change in unrealized depreciation was primarily related to a net decrease in the value of private equity fund investments and co-investments due in large part to an decrease in the fair values of NXP B.V. and ProSieben, as well as a decrease in the value of PagesJaunes, which is based on a market quotation, offset by an increase in the value of HCA, Inc., which was valued at 1.2 times cost as of December 31, 2007 compared to 1.0 times as of December 31, 2006 and Capmark, which was marked from 1.0 times cost to 1.3 times as of December 31, 2007. The net unrealized depreciation in the value of negotiated equity investments was due primarily to the decrease in the fair value of Sun, offset by an increase in the fair value of Orient, where the value of such investments were based on a reference asset for which a market quotation was readily available. The net change in unrealized depreciation related to opportunistic investments was primarily the result of mark-to-market adjustments in public equities. Unrealized depreciation related to investments in a non-private equity fund was the result of a net decrease in the value of investments made by SCF. During the year ended December 31, 2007, the Investment Partnership recorded an accounting entry related to the realized sales of investments of $33.2 million to reverse net unrealized appreciation previously recorded.

Net Increase (Decrease) in Net Assets Resulting from Operations

During the year ended December 31, 2008, the net decrease in net assets resulting from operations was $2,351.4 million. During the year ended December 31, 2007, the net increase in net assets resulting from operations was $2.8 million. The Investment Partnership's total return, based on weighted average net assets, for the years ended December 31, 2008 and December 31, 2007 was (47.1)% and 0.1%, respectively. The Investment Partnership's returns by investment type were as follows:

	Year Months Ended	
	December 31, 2008	**December 31, 2007**
Opportunistic investments	(37.6)%	(5.4)%
Temporary investments	(29.6)	0.0
Co-investments	(45.4)	(0.7)
Negotiated equity investments	(58.9)	(6.8)
Private equity funds	(31.0)	4.7
Non-private equity funds	(66.9)	5.0

Liquidity and Capital Resources

Our Cash Flows for the Years Ended December 31, 2008 and December 31, 2007

As of December 31, 2008 and December 31, 2007, KPE's cash balance was $2.1 million and $0.5 million, respectively. During the year ended December 31, 2008, cash used in operating activities was $2.8 million. KPE received distributions from the Investment Partnership in the amount of $15.0 million during the year ended December 31, 2008, which were offset by working capital requirements. Cash provided by financing activities during the year ended December 31, 2008 was $4.4 million as a result of a contribution on March 31, 2008 from an affiliate of KKR in exchange for 352,225 newly issued common units pursuant to the investment agreement.

During the year ended December 31, 2007, cash provided by operating activities was $48.4 million. KPE received distributions from the Investment Partnership in the amount of $54.1 million, which was partially offset by working capital requirements. Cash used in financing activities during the year ended December 31, 2007 was $49.1 million, which was the result of distributions by KPE to its unitholders.

Our Sources of Cash and Liquidity Needs

Our primary uses of cash are to make capital contributions to the Investment Partnership for use in investments, to make distributions to our unitholders, if and when declared by our Managing Partner's board of directors, and to pay our operating expenses. Although market conditions may currently preclude some or all of these sources of liquidity, we believe that the sources of liquidity described below are currently sufficient to fund our working capital requirements within a one-year time horizon.

Our sources of liquidity depend primarily on distributions by the Investment Partnership, capital contributions that we receive in connection with the issuance of additional common units or other securities and borrowings.

We receive distributions from the Investment Partnership from time to time to assist us in making distributions to our unitholders, if and when declared by our Managing Partner's board of directors, and to allow us to pay our operating expenses as they become due. We believe that the Investment Partnership will fund its distributions with returns generated by the private equity, opportunistic and temporary investments that it makes. The ability of the Investment Partnership to fund cash distributions to us will depend on a number of factors, including, among others, the actual results of operations and financial condition of the Investment Partnership, including availability under the revolving credit agreement and the ability to refinance such agreement and other indebtedness, restrictions on cash distributions that are imposed by applicable law, or the organizational documents or agreements of the Investment Partnership, the timing and amount of cash generated by investments that are made or assets sold by the Investment Partnership, any contingent liabilities to which the Investment Partnership may be subject, the amount of taxable income generated by the Investment Partnership and other factors that the Managing Investor deems relevant.

We entered into an investment agreement with KKR that may provide us with an additional source of liquidity. Under the investment agreement, KKR agreed to cause its affiliates to reinvest in our common units, on a periodic basis, an amount equal to 25% of the aggregate pre-tax cash distributions, if any and subject to certain limitations, that are made pursuant to the carried interest and incentive distribution rights that are applicable to the Investment Partnership. Reinvestment can be achieved by either a contribution to us in exchange for newly issued common units or by acquiring common units in the open market or in negotiated transactions. The purchase price, if newly issued, for the common units that we will issue pursuant to the investment agreement is equal to (i) the average of the high and low sales prices of our common units as quoted by the primary securities exchange on which our common units are listed or trade during the ten business days immediately preceding the issuance of the common units or (ii) if during such ten-day period our common units are not listed or admitted to trading on any securities exchange or there have not been any sales of our common units on the primary securities exchange on which our common units are then listed or admitted to trading, the fair value of our common units will be determined jointly by KKR and the board of directors of the Managing Partner (with the special approval of a majority of its independent directors).

Subject to market conditions, we may also seek to issue additional common units and other securities to other investors with the objective of increasing our available capital. We generally expect to contribute to the Investment Partnership the net cash proceeds that we receive from the issuance of common units or other securities to the extent that such cash is not used to fund distributions to our unitholders or to pay our operating and other expenses. We expect that such contributions will be used by the Investment Partnership to meet debt obligations, pay operating and other expenses, as well as to make investments that meet our investment criteria as set forth in our investment policies and procedures and our limited partnership agreement.

While it is unlikely to be accomplished under current market conditions, we may seek to enter into a working capital facility with one or more lenders for the purpose of providing us with an additional source of liquidity. If such a facility were entered into, we anticipate that we would draw funds under the credit facility primarily in connection with the funding of short-term liquidity needs. As of December 31, 2008, we had not entered into such a facility.

For the reasons described above, as well as below under "The Investment Partnership's Sources of Cash and Liquidity Needs," the Managing Partner has a reasonable expectation that we have adequate sources of liquidity to continue to conduct business for at least the next year. Accordingly, we continue to adopt the going concern basis in preparing the financial statements.

The Investment Partnership's Net Cash Flows for the Years Ended December 31, 2008 and December 31, 2007

As of December 31, 2008 and December 31, 2007, the Investment Partnership's cash balance was $623.3 million and $255.4 million, respectively. During the year ended December 31, 2008, cash provided by operating activities was $412.3 million. During the year ended December 31, 2008, the Investment Partnership received proceeds of $1,071.3 million from the sale of private equity and opportunistic investments, which included $299.5 million from secondary sales of limited partner interests in the KKR 2006 Fund and the KKR Millennium Fund. Proceeds received from the sale of investments were offset by $617.6 million from the purchase of opportunistic and private equity investments. Cash flows used in financing activities during the year ended December 31, 2008 were $30.4 million, which was comprised of payments of $565.3 million to reduce borrowings outstanding under the revolving credit agreement and $15.0 million related to a distribution to the Investment Partnership's general and limited partners, offset by additional borrowings under the revolving credit agreement of $549.9 million.

During the year ended December 31, 2007, cash used in operating activities was $2,834.1 million due primarily to purchases of private equity and opportunistic investments totaling $4,698.8 million, offset by the maturity of a $1,000.0 million time deposit and $839.9 million of proceeds received from the sales of opportunistic investments and the sale of investments by private equity funds. Cash flows provided by financing activities during the year ended December 31, 2007 were $940.7 million due primarily to borrowings under the revolving credit facility, net of deferred financing costs, of $994.9 million, offset by $54.2 million related to distributions to the Investment Partnership's general and limited partners.

The Investment Partnership's Sources of Cash and Liquidity Needs

In June 2007, the Investment Partnership entered into a $1.0 billion five-year revolving credit agreement (the "Credit Agreement"). Borrowings under the Credit Agreement may be used for general business purposes of the Investment Partnership, including the acquisition and funding of investments. As of December 31, 2008, the Investment Partnership had $951.2 million of borrowings outstanding, which included $969.0 million of borrowings and $17.8 million of foreign currency adjustments related to an unrealized gain for borrowings denominated in British pounds sterling of $14.1 million and Canadian dollars of $3.7 million. As of December 31, 2008, the Investment Partnership's availability for further borrowings under the Credit Agreement was $48.8 million, although we expect that only $5.0 million will be funded in light of the bankruptcy of Lehman Commercial Paper Inc., which had an initial aggregate commitment of $75.0 million. See "Commitments, Obligations and Contingencies – Debt Obligations" below.

In addition, during the year ended December 31, 2007, the Investment Partnership financed $350.0 million in connection with the investment in Sun, see "Commitments, Obligations and Contingencies – Debt Obligations" below for a description of the terms of the Credit Agreement and the financing related to the investment in Sun.

The Investment Partnership uses its cash primarily to fund investments, to make distributions to its general and limited partners, to pay its operating expenses, to make debt repayments and to make payments to KKR's affiliates, including management fees pursuant to the services agreement, the carried interests that are applicable to co-investments and negotiated equity investments and the incentive distribution rights that are applicable to opportunistic and temporary investments. Although market conditions may currently preclude some or all of these sources of liquidity, we believe that the sources of liquidity described below are currently sufficient to fund the working capital requirements of the Investment Partnership due within a one-year time horizon.

Because the Investment Partnership has followed the over-commitment approach described below under "Commitments, Obligations and Contingencies—Commitments to Private Equity Funds" when making investments in private equity funds, the amount of capital committed by the Investment Partnership for future private equity investments exceeds its available cash. Capital contributions are due on demand, however, given the size of such commitments and the rates at which KKR's investment funds make investments, we expect that the unfunded capital commitments presented above will be called over a period of several years. Any available cash that is held by the Investment Partnership is temporarily invested.

The Investment Partnership may receive cash from time to time from the investments that it makes. This cash may be in the form of capital gains or dividends on equity investments or payments of interest or principal on fixed income investments. Temporary investments made in connection with our cash management activities provide a more regular source of cash than less liquid private equity and certain opportunistic investments, but may generate returns that are generally lower than our other investments. In addition, private equity investments, opportunistic investments or other assets may be sold, restructured or leveraged to generate additional liquidity. Other than amounts that are used to pay expenses, used to make distributions to its general and limited partners, used to make debt repayments or used to make payments to KKR's affiliates, including management fees pursuant to the services agreement, carried interests and incentive distribution rights, any returns generated by investments made by the Investment Partnership are generally reinvested in accordance with our investment policies and procedures.

Additionally, the Investment Partnership may receive further capital contributions from KPE in the future with the objective of increasing the amount of investments that are made on KPE's behalf, or to facilitate debt repayments or to meet operating expense obligations. Further capital contributions from KPE are expected to consist primarily of the capital contributions that KPE receives from investors in connection with future capital raising activities, if any, including common units issued to affiliates of KKR pursuant to the investment agreement.

While it is unlikely to be accomplished under current market conditions, the Investment Partnership has an option to seek to increase the amounts available under its Credit Agreement (subject to obtaining the consent of the lenders thereto and the satisfaction of certain other customary conditions) or it may seek to enter into other financial instruments from time to time with the objective of increasing the amount of cash that it has available for general business purposes. Other debt financing arrangements, if available, may consist of margin financing under which specific investments will be pledged as collateral and repurchase agreements pursuant to which particular investments will be sold to counterparties with an agreement to repurchase the investments at a price equal to the sale price plus an interest factor. Currently, substantially all of the Investment Partnership's assets are pledged as collateral to the revolving credit agreement. The Investment Partnership may also seek to use other forms of indebtedness, including derivative instruments, to leverage investments, if available.

For the reasons described above, the Associate Investor has a reasonable expectation that the Investment Partnership has adequate sources of liquidity to continue to conduct business for at least the next year. Accordingly, the Investment Partnership continues to adopt the going concern basis in preparing its consolidated financial statements.

Please also see “Business Environment” above for additional information about the current financial markets that may materially impact the foregoing discussion of liquidity and capital resources.

Commitments, Obligations and Contingencies

Private Equity Commitments

As of December 31, 2008, the Investment Partnership had the following commitments to KKR private equity funds, with amounts in thousands:

	Capital Commitment	Unfunded Commitment
KKR 2006 Fund L.P.	$ 1,555,000	$ 449,213
KKR European Fund III, Limited Partnership.....................................	300,000	291,192
KKR Asian Fund L.P.	285,000	218,943
	$ 2,140,000	$ 959,348

Capital contributions are due on demand; however, given the size of such commitments and the rates at which KKR’s funds make investments, we expect 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 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 Investment Partnership to investments at a given time may exceed the aggregate amount of cash that the 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 Investment Partnership is required to time investments and manage available cash in a manner that allows it to fund its capital commitments as and when capital calls are made. As the service provider under the services agreement, KKR is primarily responsible for carrying out these activities for the 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 Investment Partnership is able to honor its commitments to funds as and when they become due. KKR will also take into account the senior secured credit facility established by the Investment Partnership. As of December 31, 2008, the Investment Partnership was over-committed; however the sources of liquidity described above under “Liquidity and Capital Resources— The Investment Partnership’s Sources of Cash and Liquidity Needs” are believed to be sufficient to honor the Investment Partnership’s commitments within a one-year time horizon.

Debt Obligations

In June 2007, the Investment Partnership entered into a Credit Agreement with a syndicate of financial institutions. The Credit Agreement provides for up to $1.0 billion of senior secured credit, subject to availability under a borrowing base determined by the value of certain investments of the Investment Partnership pledged as collateral security for its obligations. 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 October 2008, Lehman Commercial Paper Inc. (“Lehman”), an original lender under the Credit Agreement with an initial aggregate $75.0 million commitment filed for bankruptcy and was responsible for funding an additional $43.8 million in commitments as of December 31, 2008. Due to Lehman’s bankruptcy, we believe that Lehman will not fund any part of its remaining commitments. Therefore, the remaining availability under the Credit Agreement has effectively been reduced from $48.8 million absent Lehman’s bankruptcy to $5.0 million in unfunded commitments as of December 31, 2008, or from $1.0 billion to $925.0 million in total commitments, unless Lehman’s commitments are assigned to another existing or new lender. There can be no assurance that any lender will assume any part of Lehman’s commitment under the Credit Agreement.

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. The Investment Partnership must pay an annual commitment fee of 0.2% on the undrawn commitments under the Credit Agreement. During the quarter and year ended December 31, 2008, interest expense related to borrowings under the Credit Agreement, including the amortization of debt financing costs, breakage costs and commitment fees, was $8.6 million and $43.4 million, respectively, and $16.7 million and $26.8 million during the quarter and year ended December 31, 2007, respectively.

Pursuant to covenants in the Credit Agreement, the 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 December 31, 2008, the Investment Partnership was in compliance with its covenants in all material respects.

The Credit Agreement will expire in June 2012, unless earlier terminated upon an event of default. Borrowings under the Credit Agreement may be used for general business purposes of the Investment Partnership, including the acquisition and funding of investments. The Investment Partnership's borrowings outstanding under the Credit Agreement were as follows, with amounts in thousands:

	December 31, 2008	December 31, 2007
Borrowings outstanding....................................	$ 968,970	$ 999,266
Foreign currency adjustments:		
Unrealized gain related to borrowings denominated in British pounds sterling.......	(14,058)	(3,237)
Unrealized loss (gain) related to borrowings denominated in Canadian dollars	(3,698)	6,211
	$ 951,214	$ 1,002,240

As of December 31, 2008, the Investment Partnership had $48.8 million available for future borrowings under the Credit Agreement, although we expect that only $5.0 million will be funded in light of the bankruptcy of Lehman, which had an initial aggregate commitment of $75.0 million.

If total borrowings outstanding exceed 105% of the $1.0 billion available under the Credit Agreement due to fluctuations in foreign exchange rates, the Investment Partnership may be required to make certain prepayments on outstanding borrowings. As of December 31, 2008, the Investment Partnership was not subject to such prepayment requirements.

During the year ended December 31, 2007, the 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 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 Investment Partnership has the right to vote the Pledged Notes and the financial institution is obligated to follow the instructions of the Investment Partnership, subject to certain exceptions, so long as a default does not exist under the security agreements or the underlying swap agreements. The Investment Partnership is also restricted from transferring the Pledged Notes without the consent of the financial institution.

At settlement, the Investment Partnership will be entitled to receive payment equal to any appreciation on the value of the Swap Notes and the 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 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 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. 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. Interest expense related to our financing of the Sun investment was $4.1 million and $16.4 million during the quarter and year ended December 31, 2008, respectively, and $5.3 million and $20.4 million during the quarter and year ended December 31, 2007, respectively.

The Pledged Notes are held by wholly-owned subsidiaries formed by the 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 rights and obligations of these wholly-owned subsidiaries without recourse to the Investment Partnership.

As of December 31, 2008, the 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	$ 951,214	$ —	$ —	$ 951,214	$ —
Long-term debt	350,000	—	—	175,000	175,000
Total	$ 1,301,214	$ —	$ —	$ 1,126,214	$ 175,000

Interest Rate Swap

The Investment Partnership entered into an interest rate swap transaction related to the U.S. dollar denominated borrowings outstanding under its Credit Agreement with a notional amount of $350.0 million, effective February 25, 2008 and maturing February 25, 2010. In this transaction, the Investment Partnership receives 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 fair value of the interest rate swap is calculated using the current market yield of the relevant interest rate duration and an appropriate discount rate to determine a present value. The resulting net equity (loss) related to the interest rate swap is included in the consolidated statements of assets and liabilities of the Investment Partnership. The Investment Partnership has recorded an unrealized loss on the interest rate swap in the amount of $12.5 million as of December 31, 2008. As of December 31, 2008, the Investment Partnership had posted $11.0 million of restricted cash to collateralize losses on the interest rate swap transaction.

Foreign Currency Contracts

The Investment Partnership entered into forward foreign currency exchange contracts primarily to economically hedge against foreign currency exchange rate risks on certain non-U.S. dollar denominated investments. The Investment Partnership agreed to deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed-upon future date. The net equity (loss) in the contracts is the difference between the forward foreign exchange rates at the date of entry into the contracts and the forward rates at the reporting date applied to the notional amount of each respective contract at an appropriate discount rate to determine a present value and is included in the consolidated statements of assets and liabilities of the Investment Partnership. The Investment Partnership has recorded an unrealized loss on foreign currency exchange contracts in the amount of $16.8 million as of December 31, 2008. Unrealized losses on foreign currency exchange contracts are collateralized by $7.0 million of restricted cash.

Management Fees

KPE, the Managing Partner, the Investment Partnership, the Associate Investor and the Managing Investor have 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 Partner and the board of directors of the Managing Investor. Under the services agreement, KPE and the other service recipients have jointly and severally agreed to pay KKR a management fee.

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 Investment Partnership is invested. See Note 13, "Relationship with KKR and Related Party Transactions – Management Fees" of the Investment Partnership's consolidated financial statements included elsewhere in this report for a description of the calculation of the management fee under the services agreement.

Carried Interests and Incentive Distributions

Each investment that is made by the Investment Partnership is subject either to 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. See Note 13, "Relationship with KKR and Related Party Transactions – Carried Interests and

Incentive Distributions" of the Investment Partnership's consolidated financial statements included elsewhere in this report for descriptions of carried interests and incentive distributions by investment class.

Legal Proceedings

As with any partnership, we may become subject to claims and litigation arising in the ordinary course of business. We do not believe that we or the Investment Partnership have any pending or threatened legal proceedings that would have a material adverse effect on our financial position, operating results or cash flows.

Off Balance Sheet Arrangements

Other than contractual commitments, obligations and contingencies incurred in the normal course of KPE's and the Investment Partnership's businesses, KPE and the Investment Partnership do not have any off balance sheet financings or liabilities.

Exposure to Market Risks

We are exposed to a number of market risks due to the types of investments that we make and the manner in which we and the Investment Partnership raise capital. We believe that our principal exposure to market risks relates primarily to changes in the values of our investments, derivatives or securities linked to our investments, movements in prevailing interest rates, changes in foreign currency exchange rates and similar risks. We generally seek to mitigate certain market risks through the use of hedging arrangements and derivative instruments, which could subject us to additional market risks. KKR, as the service provider under the services agreement, is responsible for monitoring our market risks and for carrying out risk management activities relating to our investments. Our investment policies and procedures prohibit KKR from entering into hedging or derivative transactions for speculative purposes.

Securities Market Risks

Among other permitted investments, negotiated equity investments and opportunistic investments include investments in public equities, derivatives and securities linked to public equities. The Investment Partnership and the investment funds in which it invests may also hold investments in portfolio companies whose securities are publicly traded. The market prices of public equities may be volatile and are likely to fluctuate due to a number of factors beyond our control. These factors include actual or anticipated fluctuations in the quarterly and annual results of such companies or of other companies in the industries in which they operate, market perceptions concerning the availability of additional securities for sale, general economic, social or political developments, industry conditions, changes in government regulation, shortfalls in operating results from levels forecasted by securities analysts, the general state of the securities markets and other material events, such as significant management changes, refinancings, acquisitions and dispositions. In addition, although the Investment Partnership and the investment funds in which it invests hold investments in portfolio companies whose securities are not publicly traded, the value of these investments may also fluctuate due to similar factors beyond our control. The Investment Partnership is required to value investments at fair value, which may lead to significant changes in the net asset values and operating results that it reports from quarter to quarter and year to year.

Financial Instruments and Risk Management

Global financial markets were stressed during 2008, particularly in second half of the year, as the contraction brought on by the global financial and economic crisis accelerated. Uncertainty regarding the value of assets and ability of counterparties to meet their obligations, and a lack of transparency regarding the magnitude of risk inherent in certain investments, spread from the residential real estate market to financial markets generally. The Investment Partnership's investment portfolio has no exposure to residential real estate, residential mortgage-backed securities or residential sub-prime mortgages. Over 95% of the portfolio is invested in the KKR private equity funds and other private equity investments. We and the Investment Partnership do not have any direct risk from investments in U.S. home loan assets. The Investment Partnership, however, may have direct or indirect investments from time to time in commercial real estate assets, commercial mortgage-backed securities or commercial mortgages.

When managing our exposure to certain market risks, we and the Investment Partnership, may use one or more of the following: forward contracts, options, swaps, caps, collars and floors or pursue other strategies or forms of derivative instruments to, among other things, limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates and currency exchange rates. The scope of risk management activities vary based on the level and volatility of interest rates, prevailing foreign currency exchange rates, the type of investments that are made and other changing market conditions. The use of hedging transactions and other derivative instruments to reduce the effects of a decline in the value of a position does not eliminate the possibility of fluctuations in the value of the position or prevent losses if the value of the position declines. However, such activities can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of the position. Such transactions may also limit the opportunity for gain or generate a loss if the value of a position increases. Moreover, it may not be possible to limit the exposure to a market development that is so generally anticipated that a hedging or other derivative transaction cannot be entered into at an acceptable price.

Credit Risks

The Investment Partnership is party to agreements providing for various financial services and transactions that contain an element of risk in the event that the counterparties are unable to meet the terms of such agreements. In these agreements, the Investment Partnership depends on these counterparties to make payment or otherwise perform for the benefit of the Investment Partnership. For example, the Investment Partnership's ability to obtain funds requested pursuant to the Credit Agreement depends on the ability of the multiple lenders thereunder to fund the requested amounts in a timely manner. For information about the bankruptcy of one such lender, please see "Commitments, Obligations and Contingencies – Debt Obligations." In other cases, the Investment Partnership may be exposed to a concentration of risk by having only one or two counterparties engaged to perform a service or to execute a transaction, like prime brokerage services and certain foreign exchange and interest rate derivative transactions described below.

The Investment Partnership generally endeavors to minimize its risk of exposure by limiting the counterparties with which it enters into financial transactions to reputable financial institutions.

In addition, availability of financing from financial institutions may be uncertain due to market events, and KPE and the Investment Partnership may not be able to access these financing markets.

Interest Rate Risks

KPE may incur and the Investment Partnership has incurred indebtedness to fund liquidity needs and, in the case of the Investment Partnership, to leverage certain private equity, opportunistic and temporary investments. The Investment Partnership also makes fixed income investments that are sensitive to changes in interest rates and has entered into an interest rate swap transaction where it receives a floating rate and pays a fixed rate. As a result, we are exposed to risks associated with movements in prevailing interest rates. An increase in interest rates may make it more difficult or expensive for us or for the Investment Partnership to obtain debt financing, may negatively impact the values of fixed income investments and may decrease the returns that our investments generate.

We are subject to additional risks associated with changes in prevailing interest rates due to the fact that our capital is invested in investments which have varying degrees of indebtedness. In particular, certain portfolio companies in which we have invested have capital structures with a significant degree of indebtedness. Investments in highly leveraged companies are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. A leveraged company's income or loss and net assets also tend to increase or decrease at a greater rate than would be the case if money had not been borrowed. As a result, the risk of loss associated with an investment in a leveraged company is generally greater than for companies with comparatively less debt.

Foreign Currency Risks

Our functional currency and the functional currency of the Investment Partnership is the U.S. dollar. When valuing investments that are denominated in currencies other than the U.S. dollar, we and the Investment Partnership are required to convert the values of such investments into U.S. dollars based on prevailing exchange rates as of the end of the applicable accounting period. As a result, changes in exchange rates between the U.S. dollar and other currencies could lead to significant changes in the net asset values that we and the Investment Partnership report from quarter to quarter and year to year. Among the factors that may affect currency values are trade balances, levels of interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

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

Application of Critical Accounting Policies

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. For a description of significant accounting policies, see Note 2 to the financial statements of KPE and Note 2 to the consolidated financial statements of the Investment Partnership. The following accounting estimates and related policies are considered critical to the preparation of KPE's financial statements and the consolidated financial statements of the Investment Partnership due to the judgment and estimation processes involved in their application. The development and selection of these estimates and their related disclosure have been reviewed by the board of directors of our Managing Partner and the board of directors of the Managing Investor.

Valuation of Limited Partner Interests and Investments

Our Managing Partner's board of directors is responsible for reviewing and approving valuations of investments that are carried as assets in our financial statements and the board of directors of the Managing Investor is responsible for reviewing and approving valuations of investments that are carried as assets in the 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 their responsibilities, each board of directors 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.

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. KPE and the Investment Partnership adopted SFAS No. 157 on January 1, 2008. SFAS No. 157 establishes a hierarchal disclosure framework 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 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 – A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available. The type of investments included in Level I include listed equities and listed derivatives. In addition, securities sold, but not yet purchased and options written by the Investment Partnership are included in Level I. As required by SFAS No. 157, the Investment Partnership does not adjust the quoted price for these investments, even in situations where it holds a large position and a sale could reasonably impact the quoted price.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include negotiated equity investments convertible to a listed public equity and certain fixed income investments.

Level III – Pricing inputs are unobservable inputs 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. Investments that are included in this category generally include KPE's limited partner interests in the Investment Partnership, direct co-investments in portfolio companies, limited partner interests in private equity funds, certain negotiated equity investments that are not convertible into a listed public equity and certain investments by a non-private equity fund.

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 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.

In accordance with SFAS No. 157, 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 render the fair value measurement at a level lower than Level I.

Valuation of Investments When a Market Quotation is Not Readily Available

Investments that do not have a readily available market value are valued using fair value pricing, as determined in good faith. Generally, limited partner interests and other investments that do not have a readily available market are valued at an amount that is based on the value the holder would receive if such investments were sold in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. In certain cases, an investment made by the Investment Partnership may itself not have a readily available market value but is based on a reference asset for which a market quotation is readily available. In these cases, the investment is valued using fair value pricing, as determined in good faith, based on the period-end market prices for the reference asset generally in accordance with the principles discussed above under "Valuation of Investments When a Market Quotation is Readily Available."

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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 is determined.

	Valuation Methodology when Determining Fair Value in Good Faith
Level II:	
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	The value is generally based on the period-end market price of the reference asset for which a market quotation is readily available, which is adjusted for one or more factors deemed relevant for the fair value of the investment, which may include, but are 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.
Level III:	
KPE's limited partner interests in the Investment Partnership	The value is based on an amount equal to the amount of net proceeds from an orderly disposition that would be distributed in accordance with the Investment Partnership's limited partnership agreement, which is generally expected to be equal to the net asset value of the Investment Partnership as of the valuation date, as adjusted to reflect the allocation of net assets to the Associate Investor. KPE may be required to value such investments at a premium or discount, if other factors lead the Managing Partner to conclude that the net asset value does not represent fair value.
Limited partner interests in KKR's private equity funds held by the Investment Partnership and investments by a non-private equity fund	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 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 does not represent fair value. Each fund's net asset value will increase or decrease 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.
Investments in companies for which a market quotation is not readily available	Generally, a combination of two methods, 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, and/or a discounted cash flow or liquidation analysis, is used. 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 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.

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 Investment Partnership's limited partnership agreement. Additionally, widespread economic uncertainty and indeterminate financial markets could have a material impact on the actual value that would be realized if such investments were sold in an orderly disposition between willing parties and the resulting net proceeds that would be distributed in accordance with the Investment Partnership's limited partnership agreement.

KPE's Level I, II and III Category Investments

As of December 31, 2008 and December 31, 2007, KPE's investments in limited partner interests in the Investment Partnership were valued at $2,623.0 million and $4,984.5 million, respectively, which represented 100.0% of KPE's investments. The fair value of such investments was estimated by the Managing Partner in the absence of readily determinable fair values and the investments were classified as Level III. KPE does not hold any Level I or II category investments.

The Investment Partnership's Level I, II and III Category Investments

Investments held by the Investment Partnership for which a market quotation was readily available (Level I) and was not readily available (Levels II and III) were valued as follows, with amounts in thousands, except percentages:

	December 31, 2008		December 31, 2007	
	Fair Value	**Percentage of the Investment Partnership's Investments**	**Fair Value**	**Percentage of the Investment Partnership's Investments**
Level I (a)	$ (844)	(0.0)%	$ 553,805	9.1%
Level II	689,264	20.6	995,639	16.2
Level III	2,662,284	79.4	4,579,911	74.7
	$ 3,350,704	100.0%	$ 6,129,355	100.0%

(a) Level I investments included the fair value of securities sold, not yet purchased in the amount of $(1.9) million as of December 31, 2008 and the fair value of options written in the amount of $(5.3) million as of December 31, 2007.

The fair values of Level II and III category investments were estimated by the Managing Investor in the absence of readily determinable fair values.

Income Recognition

Income is recognized when earned. KPE records investment income, which is primarily comprised of its proportionate share of the Investment Partnership's investment income, net of expenses, and, less significantly, interest income related to its own cash management activities. In addition, KPE records its proportionate share of the Investment Partnership's gain or loss on investments and foreign currency transactions.

The Investment Partnership records income in the form of interest, dividends and realized capital gains or losses. The Investment Partnership also records income or loss in the form of unrealized appreciation or depreciation from its investments and foreign currency transactions at the end of each quarterly accounting period when the investments are valued. Although the Managing Investor, with the assistance of KKR, determines the fair value of each of its investments 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 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. See "Application of Critical Accounting Policies – Valuation of Limited Partner Interests and Investments" above. When an investment carried as an asset is sold or otherwise disposed of 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.

Listed security transactions are accounted for on the trade date (the date the order to buy or sell is executed). Capital gains and losses on sales of listed securities are determined on the identified cost basis.

Taxes and Maintenance of Status as Partnerships for U.S. Federal Tax Purposes

KPE and the Investment Partnership are not taxable entities in Guernsey, have made protective elections to be treated as partnerships for U.S. federal income tax purposes and incur no U.S. federal income tax liability. Certain subsidiaries of the Investment Partnership have also 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 Investment Partnership are treated as items of the Investment Partnership for U.S. federal income tax purposes.

Our investment polices and procedures provide that our investments must be made in a manner that permits KPE and the Investment Partnership to continue to be treated as partnerships for U.S. federal income tax purposes. To maintain compliance with this requirement, under current U.S. federal income tax laws, 90% or more of each partnership's respective gross income (determined by reference to gross income included in determining taxable income for U.S. federal income tax purposes) for every taxable year, including any short year resulting from a termination under Section 708 of the IRC, will be required to consist of "qualifying income" as defined in Section 7704 of the IRC. Qualifying income generally includes, among other things:

- interest not derived in the conduct of a financial or insurance business or excluded from the term "interest" under section 856(f) of the IRC, which excludes amounts received or accrued, directly or indirectly, if the determination of such amount depends in whole or in part on the income or profits of any person; and

- dividends and any gain from the disposition of a capital asset held for the production of qualifying interest or dividends.

To assist us in complying with this requirement, our investment policies and procedures generally provide that KPE and the Investment Partnership:

- generally may not make equity investments in a company that is the subject of an investment unless such company is treated as a corporation for U.S. federal income tax purposes, irrespective of whether such investment is made directly or indirectly through a KKR fund;

- must have the right to either (i) opt out of any investment that is to be made by a KKR fund when the investment could cause income to be earned or allocated that is not qualifying income or (ii) make the investment through an entity that is treated as a corporation for U.S. federal income tax purposes;

- are permitted to invest in a KKR fund only if such fund agrees to certain procedures with respect to the structuring of the investment that will prevent income from being earned or allocated that is not qualifying income;

- are not permitted to acquire debt instruments, unless the debt instrument (a) is held through a subsidiary treated as a corporation for U.S. tax purposes, with limitations, or (b) satisfies each of the following conditions: (i) the indebtedness is in registered form, (ii) the amount of interest payable is not determined by reference to the income, profits or revenues of any person; (iii) the indebtedness is not a loan that is originated, negotiated or serviced, although up to five loans per year may be participated in, directly or indirectly, provided that the loans are made on the same terms as are provided to KKR investment funds in connection with the funding of a portfolio company acquisition, (iv) interest in revolving credit facilities or other debt instruments do not require subsequent advances; and (v) forward commitments are not entered into to acquire a debt instrument from another person;

- are permitted to enter into derivative contracts for the purposes of hedging interest rate risks and foreign currency exchange rate risk relating to investments and certain qualifying notional principal contracts;

- are not permitted to act as a dealer with respect to any investment or any position in an investment, except through a subsidiary treated as a corporation for U.S. tax purposes;

- generally may not have management fees payable with respect to a KKR fund reduced by any fee payable to KKR or its affiliates, including any portfolio company monitoring, transaction or break-up fee; and

- are not permitted to receive any fees, such as monitoring and transaction fees, with respect to the investments that are made with our capital, except through a subsidiary treated as a corporation for U.S. tax purposes.

Certain subsidiaries of the Investment Partnership and entities in which the Investment Partnership invests have either elected to be, or by default under U.S. tax laws are, treated as corporations for U.S. tax purposes. Due to the nature of these corporations' income and assets, such corporations may be subject to the U.S. Passive Foreign Investment Company ("PFIC") rules, which typically impose certain adverse tax consequences on U.S. persons. However, U.S. persons can avoid such adverse tax consequences by making the appropriate elections. KPE endeavors to provide to its unitholders, on an annual basis, information intended to assist unitholders subject to the PFIC rules to make the appropriate elections.

Non-Consolidation of Investment Partnership

Because KPE does not hold a controlling interest in the Investment Partnership and because of the exclusion for investment companies included in Financial Accounting Standards Board ("FASB") Interpretation No. 46, *Consolidation of Variable Interest Entities*, as amended by Interpretation No. ("FIN") 46(R), we do not consolidate the results of operations, assets or liabilities of the Investment Partnership in our financial statements. However, KPE does reflect its proportionate share of the Investment Partnership's net investment income or loss and net gain or loss on investments and foreign currency transactions in its statement of operations.

Recently Issued Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*, which was effective for fiscal years beginning after December 15, 2006. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a comprehensive model for how an entity should recognize, measure, present and disclose in its financial statements uncertain tax positions that the entity has taken or expects to take on a tax return. We adopted FIN No. 48 during the year ended December 31, 2007. FIN No. 48 did not have a material impact on our financial statements or the consolidated financial statements of the Investment Partnership.

Measuring Fair Value

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

In October 2008, the FASB issued 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 clarifies the application of SFAS No. 157 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. FSP No. 157-3 was effective upon issuance and did not have a material impact on our financial statements or the consolidated financial statements of the Investment Partnership.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with changes in fair value recognized in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. KPE and the Investment Partnership adopted SFAS No. 159 during the first quarter of 2008. SFAS No. 159 did not have a material impact on our financial statements or the consolidated financial statements of the Investment Partnership.

Clarification of the Scope of the Audit and Accounting Guide Investment Companies

In June 2007, the AICPA issued Statement of Position No. 07-01, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for*

Investments in Investment Companies (“SOP 07-01”). SOP 07-01 addresses whether the accounting principles of the Audit and Accounting Guide for Investment Companies may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. On October 17, 2007, the FASB board deferred the effective date for applying SOP 07-01 indefinitely. We account for investments at fair value and are exempt from consolidation requirements under current accounting rules. As such, we do not consolidate the results of operations, assets or liabilities of the Investment Partnership in our financial statements.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*. SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. KPE and the Investment Partnership are currently evaluating the impact of adopting SFAS No. 161 on their respective financial statements.

Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles.* SFAS No. 162 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 is effective 60 days following the U.S. Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Presented Fairly in Conformity with Generally Accepted Accounting Principles*. KPE and the Investment Partnership are currently evaluating the impact of adopting SFAS No. 162 on their respective financial statements.

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FINANCIAL STATEMENTS OF KKR PRIVATE EQUITY INVESTORS, L.P.

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDIT REPORT

To the Partners of KKR Private Equity Investors, L.P.:

We have audited the financial statements of KKR Private Equity Investors, L.P. ("KPE") for the year ended December 31, 2008 which comprise the Statement of Assets and Liabilities, the Statement of Operations, the Statement of Changes in Net Assets, the Statements of Cash Flows and the related notes 1 to 11 and note 13. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to KPE's partners, as a body, in accordance with section 18 of The Limited Partnerships (Guernsey) Law, 1995. Our audit work has been undertaken so that we might state to the partners those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than KPE and KPE's partners as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Managing Partner and the Auditors

As described in the Statements of Responsibility, the Managing Partner is responsible for preparing the financial statements in accordance with applicable Guernsey law, accounting principles generally accepted in the United States of America and the Dutch Investment Institution Supervision Act insofar applicable.

Our responsibility is to audit the financial statements in accordance with relevant Guernsey legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with accounting principles generally accepted in the United States of America and have been properly prepared in accordance with The Limited Partnerships (Guernsey) Law, 1995, KPE's Limited Partnership Agreement and the Dutch Investment Institution Supervision Act insofar applicable.

In addition we report to you if, in our opinion, KPE has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Financial Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Financial Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Managing Partner in the preparation of the financial statements, and of whether the accounting policies are appropriate to KPE's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with accounting principles generally accepted in the United States of America, of the state of KPE's affairs as at December 31, 2008 and of its return for the year ended December 31, 2008;
- the financial statements have been properly prepared in accordance with The Limited Partnerships (Guernsey) Law, 1995 and KPE's Limited Partnership Agreement; and
- the financial statements have been properly prepared in accordance with the Dutch Investment Institution Supervision Act insofar applicable.

Emphasis of Matter – Fair Value of Investments

Without qualifying our audit opinion, we draw attention to the disclosures made in note 2 concerning the valuation of limited partner interests. The Directors of the Managing Partner have estimated the fair value of the investment in KKR PEI Investments, L.P. at $2,623.0 million (100.2% of net assets) as of December 31, 2008. This value has been estimated by the Directors of the Managing Partner in the absence of readily ascertainable market value. However, because of the inherent uncertainty of the valuation, the estimated value may differ materially from the value that would have been realized had a disposal of the investments been made between a willing buyer and seller.

Deloitte LLP
Chartered Accountants
Guernsey
February 27, 2009

KKR PRIVATE EQUITY INVESTORS, L.P.

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

	December 31, 2008	December 31, 2007
ASSETS:		
Investments in limited partner interests of KKR PEI Investments, L.P., at fair value	$ 2,622,970	$ 4,984,533
Cash and cash equivalents	2,095	452
Prepaid expenses	171	141
Total assets	2,625,236	4,985,126
LIABILITIES:		
Accrued liabilities	4,927	1,823
Due to affiliate	1,640	930
Total liabilities	6,567	2,753
COMMITMENTS AND CONTINGENCIES	—	—
NET ASSETS	$ 2,618,669	$ 4,982,373
NET ASSETS CONSIST OF:		
Partners' capital contributions, net (common units outstanding of 204,902,226 and 204,550,001, respectively)	$ 4,834,517	$ 4,830,110
Distributable earnings (loss)	(2,215,848)	152,263
	$ 2,618,669	$ 4,982,373
Net asset value per common unit	$ 12.78	$ 24.36
Market price per common unit	$ 3.50	$ 18.16

See accompanying notes to the financial statements.

KKR PRIVATE EQUITY INVESTORS, L.P.

STATEMENTS OF OPERATIONS
(Amounts in thousands)

	Year Ended December 31, 2008	Year Ended December 31, 2007
NET INVESTMENT INCOME (LOSS) ALLOCATED FROM KKR PEI INVESTMENTS, L.P.:		
Investment income	$ 45,277	$ 126,540
Expenses	109,934	100,707
	(64,657)	25,833
INVESTMENT INCOME—Interest income	88	70
EXPENSES—General and administrative expenses	21,605	6,874
NET INVESTMENT INCOME (LOSS)	(86,174)	19,029
REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY ALLOCATED FROM KKR PEI INVESTMENTS, L.P:		
Net realized gain (loss)	(104,356)	113,196
Net change in unrealized depreciation	(2,177,581)	(136,359)
Net loss on investments and foreign currency transactions	(2,281,937)	(23,163)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (2,368,111)	$ (4,134)

See accompanying notes to the financial statements.

KKR PRIVATE EQUITY INVESTORS, L.P.

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

NET ASSETS—DECEMBER 31, 2006	$	5,035,599
NET DECREASE IN NET ASSETS FROM OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2007:		
Net investment income		19,029
Net loss on investments and foreign currency transactions.		(23,163)
Net decrease in net assets resulting from operations		(4,134)
Distribution to unitholders		(49,092)
NET ASSETS—DECEMBER 31, 2007	$	4,982,373
NET DECREASE IN NET ASSETS FROM OPERATIONS FOR THE YEAR ENDED DCEMBER 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

See accompanying notes to the financial statements.

KKR PRIVATE EQUITY INVESTORS, L.P.

STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year Ended December 31, 2008	Year Ended December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net decrease in net assets resulting from operations	$ (2,368,111)	$ (4,134)
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 (income) allocated from KKR PEI Investments, L.P.	64,657	(25,833)
Net loss on investments and foreign currency transactions allocated from KKR PEI Investments, L.P.	2,281,937	23,163
Share-based compensation expense	49	25
Changes in operating assets and liabilities:		
Distribution received from KKR PEI Investments, L.P.	14,969	54,082
Increase in prepaid expenses	(30)	(30)
Increase in accrued liabilities	3,055	589
Increase in due to affiliate	710	566
Net cash flows provided by (used in) operating activities	(2,764)	48,428
CASH FLOWS FROM FINANCING ACTIVITIES:		
Partners' capital contributions	4,407	—
Distribution to unitholders	—	(49,092)
Net cash flow provided by (used in) financing activities	4,407	(49,092)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,643	(664)
CASH AND CASH EQUIVALENTS—Beginning of period	452	1,116
CASH AND CASH EQUIVALENTS—End of period	$ 2,095	$ 452

See accompanying notes to the financial statements.

1. BUSINESS

KKR Private Equity Investors, L.P. (“KPE”) is a Guernsey limited partnership that is comprised of (i) KKR Guernsey GP Limited (the “Managing Partner”), which holds 100% of the general partner interests in KPE, and (ii) the holders of limited partner interests in KPE. KPE’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 as of December 31, 2008. The common units are non-voting and are traded under the symbol “KPE” on Euronext Amsterdam by NYSE Euronext (“Euronext Amsterdam”), the regulated market of Euronext Amsterdam N.V.

The Managing Partner is a Guernsey limited company that is owned by individuals who are affiliated with Kohlberg Kravis Roberts & Co. L.P. (together with its applicable affiliates, “KKR”). The Managing Partner is responsible for managing the business and affairs of KPE. KPE seeks to create long-term value by participating in private equity and opportunistic investments identified by KKR. KPE makes all of these investments through KKR PEI Investments, L.P. (the “Investment Partnership”), of which it is the sole limited partner.

KPE 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 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 (the “New Rules”). KPE 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, KPE became regulated under the New Rules and is deemed to be an authorized closed-ended investment scheme under the New Rules with 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.

KPE will not elect to be treated as a less regulated registered collective investment scheme.

The Investment Partnership invests in private equity investments, opportunistic investments and temporary investments.

- “**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.
- “**Opportunistic investments**” are any investments identified by KKR in the course of its business other than private equity investments, including public equities and fixed income investments.
- “**Temporary investments**” are investments made in connection with cash management activities.

The Investment Partnership is a Guernsey limited partnership that is comprised of (i) KKR PEI Associates, L.P. (the “Associate Investor”), which holds 100% of the general partner interests in the Investment Partnership, which represented a 0.2% interest as of December 31, 2008 and December 31, 2007, and (ii) KPE, which holds 100% of the limited partner interests in the Investment Partnership, which represented a 99.8% interest as of December 31, 2008 and December 31, 2007. As the Investment Partnership’s sole general partner, the Associate Investor is responsible for managing the business and affairs of the Investment Partnership. Because the Associate Investor is itself a Guernsey limited partnership, its general partner, KKR PEI GP Limited (the “Managing Investor”), a Guernsey limited company that is owned by individuals who are affiliated with KKR, is effectively responsible for managing the Investment Partnership’s business and affairs.

The Investment Partnership's limited partnership agreement provides that its investments must comply with the investment policies and procedures that are established from time to time by the Managing Partner's board of directors on behalf of KPE. KPE's investment policies and procedures currently provide, among other things, that the Investment Partnership will 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. As of December 31, 2008, the Investment Partnership had invested 96.0% of its adjusted assets in private equity and temporary investments and 4.0% of its adjusted assets in opportunistic investments. "Adjusted assets" are defined as the Investment Partnership's consolidated assets less the amount of indebtedness that is recorded as a liability on its consolidated statements of assets and liabilities.

KPE, the Managing Partner, the Investment Partnership, the Associate Investor and the Managing Investor have 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 Partner and the board of directors of the Managing Investor.

Business Combination Transaction

On July 27, 2008, KPE and KKR & Co. L.P. ("Acquirer"), together with certain other related parties, entered into a purchase and sale agreement (the "Sale Agreement"), whereby the Acquirer agreed to acquire all of KPE's assets and to assume all of KPE's liabilities upon the consummation of the transaction (the "Closing") contemplated by the Sale Agreement (the "Transaction"). The Acquirer is an affiliate of KKR. The Sale Agreement was approved by the Board of Directors of the Managing Partner in July 2008 based on the unanimous recommendation of the independent directors of the Board to approve the Transaction.

However, the financial world and markets have changed dramatically since July 2008. The Acquirer and the independent directors of the Managing Partner's Board of Directors are in the process of evaluating the impact of these changes on the continued advisability of the Transaction and hope to complete their analysis over the next several weeks.

As currently contemplated, in exchange for the receipt of assets, at the Closing the Acquirer will issue to KPE common units representing limited partner interests in the Acquirer ("Acquirer Common Units") and one contingent value interest ("CVI") for each common unit of the Acquirer that they receive. The value of the net assets to be acquired by the Acquirer is expected to be in excess of the total consideration received; therefore, it is expected that KPE will record a loss related to the transaction at the time of Closing.

The Acquirer Common Units to be issued to KPE will represent 21% of the equity of Acquirer at the Closing. The CVIs to be issued to KPE will represent the right to receive, on the third anniversary of the Closing and subject to the other terms and conditions thereof, at the election of the principals of the Acquirer, either additional Acquirer Common Units up to 6% of the equity of the Acquirer at the Closing or its cash equivalent as of the Closing.

At the Closing, the Acquirer Common Units will be listed on the New York Stock Exchange. The CVIs will be separate from the Acquirer Common Units, but will not be listed on any exchange and will not be permitted to be transferred. The Acquirer Common Units issued to KPE will be distributed to the KPE common unit holders (and RDU holders) as of the Closing, after which KPE will dissolve and KPE's common units will be delisted from Euronext Amsterdam.

The Closing is subject to the satisfaction or waiver of a number of conditions, including the consent of the holders representing a majority of KPE's common units, excluding common units whose votes are controlled by KKR and its affiliates. Some or all of these conditions to Closing may not be in the control of KPE, the Acquirer or the other parties to the Sale Agreement, and therefore no assurances can be made as to whether or exactly when the Closing will occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of KPE 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, KPE received a letter from the Netherlands Authority for the Financial Markets ("AFM") in which the AFM granted KPE special dispensation from the requirement to prepare financial statements in accordance with Dutch GAAP and International Financial Reporting Standards so long as KPE's financial statements are prepared in accordance with U.S. GAAP. Prior to the receipt of this letter, KPE's financial statements were prepared in accordance with U.S. GAAP pursuant to a temporary approval from the AFM. KPE utilizes the U.S. dollar as its functional currency.

Because KPE does not hold a controlling interest in the Investment Partnership and because of the exclusion for investment companies included in Financial Accounting Standards Board ("FASB") Interpretation No. 46, *Consolidation of Variable Interest Entities*, as amended by Interpretation No. ("FIN") 46(R), KPE does not consolidate the results of operations, assets or liabilities of the Investment Partnership in its financial statements. However, KPE does reflect its proportionate share of the 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 consolidated financial statements of the Investment Partnership, including the schedule of its investments, should be read in conjunction with KPE's 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 KPE's limited partner interests in the Investment Partnership and the underlying valuation of certain of the 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 KPE's current cash balance and its future obligations and expects KPE to continue as a going concern for at least the next year. As detailed under "Management's Overview – Liquidity and Capital Resources" included elsewhere within this report, this assessment is based on KPE's expected operating expenses, and because KPE's sources of liquidity depend primarily on distributions by the Investment Partnership, the Investment Partnership's historic and predicted timing of capital calls for its unfunded commitments, present sources of liquidity, borrowing facilities and the ability to raise cash through sales of investments and other activities.

KPE utilizes a reporting schedule comprised of four three-month quarters with an annual accounting period that ends on December 31. The quarterly periods end on March 31, June 30, September 30 and December 31. The financial results presented herein include activity for the years ended December 31, 2008 and December 31, 2007.

KPE operates through one reportable business segment for management reporting purposes.

Valuation of Limited Partner Interests

KPE records its investment in the 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 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. Valuation of investments held by the Investment Partnership is further discussed in the notes to the Investment Partnership's consolidated financial statements.

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. KPE adopted SFAS No. 157 on January 1, 2008. SFAS

No. 157 establishes a hierarchal disclosure framework 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 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 – A 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 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III – Pricing inputs are unobservable inputs 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. Investments that are included in this category include KPE's limited partner interests in the Investment Partnership.

KPE's investments in limited partner interests in the Investment Partnership do not have a readily available market and were valued by the Managing Partner and recorded at the determined fair value. Such limited partner interests are generally valued at an amount that is equal to the aggregate value of the assets, which are net of any related liabilities, of the Investment Partnership that KPE would receive 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 KPE in accordance with the Investment Partnership's limited partnership agreement. This amount is generally expected to be equal to the 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 Investment Partnership's net asset value is 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 records 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 Investment Partnership's limited partnership agreement.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in banks and liquid investments with maturities, at the date of acquisition, not exceeding 90 days.

Concentration of Credit Risk

As of December 31, 2008 and December 31, 2007, KPE's cash and cash equivalents were held by two financial institutions.

Prepaid Expenses

As of December 31, 2008 and December 31, 2007, prepaid expenses were comprised primarily of insurance payments, which are amortized on a straight-line basis over the related period.

Investment Income

Income is recognized when earned. KPE records its proportionate share of the Investment Partnership's investment income. In addition, KPE records its own investment income, which was comprised of interest income related to cash management activities during the years ended December 31, 2008 and December 31, 2007.

General and Administrative Expenses

Expenses are recognized when incurred. KPE records its proportionate share of the Investment Partnership's expenses. In addition, KPE records its own general and administrative expenses, which were comprised primarily of KPE's allocated share, if applicable, of the total management fees that are payable under the services agreement, expenses of KKR that are attributable to KPE's operations and reimbursable under the services agreement, professional fees, including professional fees related to the process surrounding the Transaction, the directors' fees and expenses that the Managing Partner pays to its independent directors and other administrative costs.

During both the years ended December 31, 2008 and December 31, 2007, fees for audit services of $0.3 million were included in general and administrative expenses.

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

Share-Based Compensation Expense

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

Taxes

KPE is not a taxable entity in Guernsey and has made a protective election to be treated as a partnership for U.S. federal income tax purposes and, therefore, incurs no U.S. federal income tax liability. Instead, each unitholder takes into account its allocable share of items of income, gain, loss, deduction and credit of KPE in computing its U.S. federal income tax liability. KPE has filed U.S. federal and state tax returns for the 2006 and 2007 tax years, which are subject to the possibility of an audit until the expiration of the applicable statute of limitations.

Distribution Policy

The Managing Partner has adopted a distribution policy for KPE whereby KPE may make distributions, which will be payable to all unitholders, in an amount in U.S. dollars that is generally expected to be sufficient to permit U.S. unitholders to fund their estimated U.S. tax obligations (including any federal, state and local income taxes) with respect to their distributive shares of taxable net income or gain, after taking into account any withholding tax imposed on KPE. For any particular unitholder, such distributions may not be sufficient to pay the unitholder's actual U.S. or non-U.S. tax liability. Under KPE's limited partnership agreement, distributions to unitholders will be made only as determined by the Managing Partner in its sole discretion.

Guarantees

Pursuant to FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees,* at the inception of guarantees issued, KPE will record 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. KPE did not have any such guarantees in place as of December 31, 2008 or December 31, 2007.

Recently Issued Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*, which was effective for fiscal years beginning after December 15, 2006. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a comprehensive model for how an entity should recognize, measure, present and disclose in its financial statements uncertain tax positions that the entity has taken or expects to take on a tax return. KPE adopted FIN No. 48 during the year ended December 31, 2007 and the adoption did not have a material impact on KPE's financial statements.

Measuring Fair Value

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies to reporting periods beginning after November 15, 2007. KPE adopted SFAS No. 157 during the first quarter of 2008. SFAS No. 157 did not have a material impact on the financial statements of KPE.

In October 2008, the FASB issued 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 clarifies the application of SFAS No. 157 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. FSP No. 157-3 was effective upon issuance and did not have a material impact on KPE's financial statements.

Fair Value Option for Financial Assets and Financial Liabilities

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

Clarification of the Scope of the Audit and Accounting Guide Investment Companies

In June 2007, the AICPA issued Statement of Position No. 07-01, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ("SOP 07-01"). SOP 07-01 addresses whether the accounting principles of the Audit and Accounting Guide for Investment Companies may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. On October 17, 2007, the FASB board deferred the effective date for applying SOP 07-01 indefinitely. KPE accounts for its investments at fair value and is exempt from consolidation requirements under current accounting rules. As such, KPE does not consolidate the results of operations, assets or liabilities of the Investment Partnership in its financial statements.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. KPE is currently evaluating the impact of adopting SFAS No. 161 on its financial statements.

Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles.* SFAS No. 162 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 is effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Presented Fairly in Conformity with Generally Accepted Accounting Principles*. KPE is currently evaluating the impact of adopting SFAS No. 162 on its financial statements.

3. INVESTMENTS IN LIMITED PARTNER INTERESTS OF THE INVESTMENT PARTNERSHIP

As of December 31, 2008, KPE's limited partner interests in the Investment Partnership consisted of the following classes:

	Type of Investments Held by the 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 investments in limited partner interests of the Investment Partnership were as follows, with amounts in thousands:

	Interests				
	Class A	Class B	Class C	Class D	Total
Beginning balance as of December 31, 2006	$ 3,321,084	$ 950,384	$ 700,367	$ 64,110	$ 5,035,945
Transfers between classes	(3,508,922)	2,307,544	1,084,956	116,422	—
Distribution from the Investment Partnership	(54,082)	—	—	—	(54,082)
Net investment income (loss)	7,736	(2,714)	7,576	13,235	25,833
Net realized gain	17,759	—	87,842	7,595	113,196
Net change in unrealized depreciation	(49,679)	(37,476)	(36,712)	(12,492)	(136,359)
Balance as of December 31, 2007	(266,104)	3,217,738	1,844,029	188,870	4,984,533
Transfers between classes	145,982	(15,070)	(130,912)	—	—
Distribution from the Investment Partnership	(14,969)	—	—	—	(14,969)
Net investment income (loss)	(74,048)	(11,511)	8,613	12,289	(64,657)
Net realized gain (loss)	(88,243)	38,301	(7,555)	(46,859)	(104,356)
Net change in unrealized appreciation (depreciation)	16,421	(1,570,473)	(531,675)	(91,854)	(2,177,581)
Balance as of December 31, 2008	$ (280,961)	$ 1,658,985	$ 1,182,500	$ 62,446	$ 2,622,970

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

KPE's investment in the Investment Partnership consists of limited partner interests that are not registered under the U.S. Securities of Act of 1933, as amended (the "Act"). KPE does not have the right to demand the registration of these limited partner interests under the Act. See Note 2, "Summary of Significant Accounting Policies – Valuation of Limited Partner Interests" for a description of the valuation of these limited partner interests.

4. FAIR VALUE MEASUREMENTS

As of December 31, 2008 and December 31, 2007, KPE's investments in limited partner interests in the Investment Partnership were valued at $2,623.0 million and $4,984.5 million, respectively, which represented 100.0% of KPE'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. KPE does not hold any Level I or II category investments.

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

Fair value of limited partner interests as of December 31, 2007	$ 4,984,533
Distributions from the Investment Partnership	(14,969)
Allocations from the Investment Partnership:	
Net investment loss	(64,657)
Net realized loss on investments	(104,356)
Net unrealized loss on investments and foreign currency transactions	(2,177,581)
Fair value of limited partner interests as of December 31, 2008	$ 2,622,970

5. LIABILITIES

As of December 31, 2008 and December 31, 2007, accrued liabilities of $4.9 million and $1.8 million, respectively, were comprised of accrued professional fees related to the business combination transaction between KPE and KKR & Co. L.P. incurred during the year ended December 31, 2008, payments owed to vendors for services provided to KPE in the normal course of business and fees and expenses of the Managing Partner's board of directors.

As of December 31, 2008 and December 31, 2007, the amount due to affiliate of $1.6 million and $0.9 million, respectively represented reimbursable direct expenses incurred by KKR.

6. COMMON UNITS

Upon completion of the initial offering and related transactions, KPE had 204,550,001 common units outstanding. The transactions related to the initial offering and related transactions resulted in aggregate net proceeds to KPE of $4,830.1 million. On March 31, 2008, KPE 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 December 31, 2008, KPE had 204,902,226 common units outstanding.

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

7. DISTRIBUTABLE EARNINGS (LOSS)

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

Distributable earnings as of December 31, 2006	$	205,489
Net decrease in net assets resulting from operations during the year ended December 31, 2007		(4,134)
Distribution to unitholders		(49,092)
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)

As of December 31, 2008 and December 31, 2007, the accumulated undistributed net investment income was $59.3 million and $145.5 million, respectively. The accumulated undistributed net realized gain on investments and foreign currency transactions was $43.3 million and $147.7 million as of December 31, 2008 and December 31, 2007, respectively. The accumulated undistributed net unrealized depreciation on investments and foreign currency transactions was $2,230.6 million and $53.0 million as of December 31, 2008 and December, 31, 2007, 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 provides 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 allows for the issuance of awards with respect to an aggregate of 1,000,000 common units. Compensation expense is 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 December 31, 2008, 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 vest over a four year period and have a term not longer than ten years from the date of grant. As of December 31, 2008, 14,739 SARs were vested.

The fair values of the SARs were calculated at the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used in the Black-Scholes option-pricing model to value the SARs granted as of December 31, 2008:

Expected life	10 years
Volatility factor	46.7%
Risk-free interest rate	2.8%
Dividend yield	0.0%

The expected life of the SARs granted was estimated based on the expiration date per the Plan.

During the years ended December 31, 2008 and December 31, 2007, the SARs resulted in share-based compensation expense of less than $0.1 million during each respective period. As of December 31, 2008, there was approximately $0.2 million of total unrecognized compensation cost related to unvested share-based compensation awards granted under the Plan, which does not include the effect of future grants of equity compensation, if any. KPE expects to recognize approximately 30% per year from 2009 to 2010, 23% in 2011 and 17% in 2012.

9. RELATIONSHIP WITH KKR AND RELATED-PARTY TRANSACTIONS

In connection with the formation of KPE and the initial offering of its common units, affiliates of KKR contributed $75.0 million in cash to KPE and the Investment Partnership, of which $65.0 million was contributed to KPE in exchange for common units at the initial offering price of $25.00 and $10.0 million was contributed to the Investment Partnership in respect of general partner interests in the Investment Partnership. On March 31, 2008, affiliates of KKR contributed $4.4 million to KPE 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 Investment Partnership pursuant to the investment agreement.

Subject to the supervision of the board of directors of the Managing Partner and the board of directors of the Managing Investor, KKR assists KPE and the 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 are 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

KPE, the Managing Partner, the Investment Partnership, the Associate Investor and the Managing Investor have 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 Partner and the board of directors of the Managing Investor.

The services agreement contains certain provisions requiring KPE 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 has evaluated the impact of these guarantees on the financial statements and determined that they are not material at this time.

Management Fees

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

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

(1) Generally, subsequent to May 10, 2007, equity for purposes of the management fee is approximately equal to KPE'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 Investment Partnership is invested.

For the purposes of calculating the management fee under the services agreement, "equity" is defined as the sum of the net proceeds in cash or otherwise from each issuance of KPE'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 KPE'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 KPE paid for repurchases of KPE's limited partner interests.

The foregoing calculation of "equity" will be 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. During the one-year period following the commencement of KPE's operations, through May 10, 2007, for the purpose of the management fee calculation, equity did not include any portion of the proceeds from the initial offering and related transactions while such proceeds were invested in temporary investments or any distributable earnings that were generated by such temporary investments.

The management fee payable under the services agreement will be reduced in current or future periods by an amount equal to the sum of (i) any cash that KPE and the other service recipients, as limited partners of KKR's investment funds, pay to KKR or its affiliates during such period in respect of management fees of such funds (or capital that KPE 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, (ii) management fees, if any, that KPE may pay third parties in the future in connection with the service recipients' investments and (iii) until the profits on the Investment Partnership's consolidated investments that are subject to a carried interest or incentive distribution right equal the managers' commissions, placement fees and other expenses incurred in connection with KPE's initial offering and related transactions, carried interests and incentive distributions made pursuant to the terms of the investment funds in which the Investment Partnership is invested, subject to certain limitations.

The reduction of the management fee payable under the services agreement by the amount of carried interests or incentive distribution rights paid pursuant to the terms of KKR's investment funds is limited to 5% of KPE's gross income (other than income that qualifies as capital gains) for U.S. federal income tax purposes for a taxable year minus any gross income earned by or allocated to KPE for U.S. federal income tax purposes during such taxable year that is not "qualifying income" as defined in Section 7704(d) of the U.S. Internal Revenue Code.

The Investment Partnership earned income from KKR's private equity funds during the year ended December 31, 2008, which, pursuant to the terms of those funds, was received net of carried interests of $3.4 million. The amount of carried interests paid to KKR's affiliates during the 2008 taxable year was used to offset the management fee at year end.

During the year ended December 31, 2007, the Investment Partnership earned income from KKR's private equity funds, which pursuant to the terms of those funds, was received net of carried interests of $23.5 million. Because the 2007 carried interest amount exceeded the maximum amount the management fee was able to be reduced by, the amount of carried interests used to reduce the management fee payable under the management agreement was limited to $6.4 million. Correspondingly, the profits related to the $17.1 million remainder of 2007 carried interests were not used to determine whether the managers' commissions, placement fees and other expenses incurred in connection with KPE's initial offering and related transactions were recouped.

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

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

During the years ended December 31, 2008 and December 31, 2007, KPE did not make any payments or accrue any liabilities related to the management fee; however, the Investment Partnership recorded management fee expense of $43.1 million and $46.6 million during the years ended December 31, 2008 and December 31, 2007, respectively.

Recoupment through Profits of Expenses Incurred in Connection with KPE's Initial Offering and Related Transactions

Each investment that is made by the 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 Investment Partnership's consolidated investments that are subject to a carried interest or incentive distribution right equal the managers' commissions, placement fees and other expenses incurred in connection with the initial offering and related transactions, (i) the Associate Investor will 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 may be reduced by the amount of carried interests and incentive distributions made pursuant to the terms of the investment funds in which the Investment Partnership is invested.

As of December 31, 2008, 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 Investment Partnership's consolidated investments as follows, with amounts in thousands:

Offering costs	$	283,640
Versus creditable amounts		141,162
Remainder	$	142,478

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 December 31, 2008.

Incentive fees of $1.0 million incurred by SCF during the year ended December 31, 2007, did not reduce the management fees recorded by the Investment Partnership for such period, as determined by the Managing Partner to be in the best interests of KPE's unitholders based on legal and tax advice received from its advisors in light of KPE's classification as a partnership for U.S. federal income tax purposes. Correspondingly, the profits of SCF were not taken into account when determining whether the managers' commissions, placement fees and other expenses incurred in connection with KPE's initial offering and related transactions were recouped.

Reimbursed Expenses

During the years ended December 31, 2008 and December 31, 2007, KPE paid KKR $4.4 million and $3.1 million, respectively, for reimbursable direct expenses incurred pursuant to the services agreement. These reimbursed expenses were included in KPE's general and administrative expenses.

Investment Agreement

In connection with the initial offering, KPE entered into an investment agreement pursuant to which KKR agreed to cause its affiliates to reinvest in KPE 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 are made in respect of the carried interests and incentive distribution rights. Reinvestment can be achieved by either a contribution to KPE in exchange for newly issued common units or by acquiring common units in the open market or in negotiated transactions. The amount that KKR's affiliates will be required to reinvest in KPE will equal the sum of:

- Except as described below, 25% of each carried interest cash distribution that is made by a KKR investment fund to KKR or its affiliate attributable to the capital contributed to the fund by the Investment Partnership (or any person from whom the Investment Partnership acquired its limited partner interest) in connection with an investment;

- 25% of each carried interest cash distribution that is made to the Associate Investor in respect of co-investments and negotiated equity investments that are made by the Investment Partnership; and

- 25% of each incentive cash distribution that is made to the Associate Investor in respect of opportunistic and temporary investments that are made by the Investment Partnership.

In the case of a carried interest cash distribution that is made to KKR or its affiliate in connection with an investment where the Investment Partnership has acquired a limited partner interest from another person, KKR's investment obligation applies only to such portion of the cash distribution that relates to the appreciation in the value of the investment occurring after the date on which the limited partner interest was acquired by the Investment Partnership.

Under the investment agreement, affiliates of KKR are generally required to make such contribution or an election to acquire common units in the open market or in negotiated transactions on or before the last business day of the month immediately following the end of the relevant period in respect of which the distributions were made, except that while the managers' commissions, placement fees and other expenses incurred in connection with KPE's initial offering and related transactions are recouped, the contribution will be made on March 31st following the relevant period or the election will be made on or before March 31st following the relevant period. The purchase price, if newly issued, for the common units that will be issued pursuant to the investment agreement is equal to (i) the average of the high and low sales prices of KPE's common units as quoted by the primary securities exchange on which the common units are listed or trade during the ten business days immediately preceding the issuance of the common units or (ii) if during such ten-day period KPE's common units are not listed or admitted to trading on any securities exchange or there have not been any sales of the common units on the primary securities exchange on which the common units are then listed or admitted to trading, the fair value of the common units will be determined jointly by KKR and the board of directors of the Managing Partner with the special approval of a majority of the Managing Partner's independent directors.

Under the investment agreement, KKR agreed to cause each affiliate of KKR that acquires common units or RDUs pursuant to the investment agreement to enter into a three-year lock-up agreement with respect to the units acquired. The lock-up restrictions may be amended or waived by the Managing Partner.

The investment and lock-up agreements will terminate automatically, without notice and without liability to KPE, the Managing Partner or KKR, upon the termination of the services agreement. Prior to the termination of the services agreement, the investment and lock-up agreements will be able to be terminated only by an agreement in writing signed by the Managing Partner and KKR.

License Agreement

KPE, the Managing Partner, the 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 has a legal right to the "KKR" name.

Other

During the year ended December 31, 2007, KPE announced that one or more investment funds managed by KKR may invest from time to time in KPE's common units. The funds investing in KPE's common units include certain funds that may raise capital over time. As part of their strategy, these funds may invest in KPE 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 KPE'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. The funds investing in KPE's common units do not include KKR's traditional private equity funds. These investments are not being made by KPE or any entities in which it invests, and they will not reduce the number of common units that KPE has outstanding. As of December 31, 2008, these funds owned 4,667,166 of KPE's common units or 2.3% of common units outstanding.

As of December 31, 2008, the directors of the Managing Partner had no personal interest in the limited partner interests of the Investment Partnership held by KPE.

During the year ended December 31, 2008, KPE did not have any meaningful investment transactions, not including cash management activities, and thus none of KPE's investment transaction volume may be deemed to have been with an affiliate. Accordingly, there were no associated transaction costs.

10. FINANCIAL HIGHLIGHTS

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

	For the Year Ended		April 18, 2006 (Date of Formation) to
	December 31, 2008	December 31, 2007	December 31, 2006
Per unit operating performance:			
Net asset value at the beginning of the period	$ 24.36	$ 24.62	$ —
Adjustment to beginning net asset value for units issued during the period	(0.05)	—	—
	24.31	24.62	—
Income from investment operations:			
Net investment income (loss)	(0.42)	0.09	0.62
Net loss on investments and foreign currency transactions	(11.13)	(0.11)	0.58
Total from investment operations	(11.55)	(0.02)	1.20
Capital contributions	0.02	—	25.00
Distribution to unitholders	—	(0.24)	(0.19)
Offering costs	—	—	(1.39)
Net asset value at the end of the period	$ 12.78	$ 24.36	$ 24.62
Total return	(47.5)%	(0.1)%	7.8%
Percentages and supplemental data:			
Net assets at the end of the period	$ 2,618,669	$ 4,982,373	$ 5,035,599
Ratios to average net assets:			
Total expenses	3.5%	2.1%	0.5%
Net investment income (loss)	(2.3)	0.4	4.1

The total return and ratios were calculated based on weighted average net assets and have been presented on an annualized basis for the partial year ended December 31, 2006.

KPE's turnover ratio for all periods presented was zero.

11. CONTINGENCIES

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

12. QUARTERLY OPERATING RESULTS (UNAUDITED)

A summary of quarterly operating results for KPE for the years ended December 31, 2008 and December 31, 2007 was as follows, with amount in thousands, except per unit and percentage amounts.

	For the Quarter Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Net investment loss	$ (21,094)	$ (18,452)	$ (27,235)	$ (19,393)
Net loss on investments and foreign currency transactions	(247,829)	(141,229)	(668,647)	(1,224,232)
Net decrease in net assets resulting from operations	(268,923)	(159,681)	(695,882)	(1,243,625)
Net assets at the end of the period	4,717,857	4,558,176	3,862,294	2,618,669
Per unit net asset value at the end of the period	23.02	22.25	18.85	12.78
Total return (annualized)	(21.4)%	(13.6)%	(60.8)%	(127.7)%

	For the Quarter Ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Net investment income (loss)	$ 25,066	$ 22,544	$ (6,369)	$ (22,212)
Net gain (loss) on investments and foreign currency transactions	131,867	127,421	(14,851)	(267,600)
Net increase (decrease) in net assets resulting from operations	156,933	149,965	(21,220)	(289,812)
Net assets at the end of the period	5,192,532	5,342,497	5,272,185	4,982,373
Per unit net asset value at the end of the period	25.39	26.12	25.77	24.36
Total return (annualized)	12.6%	11.6%	(1.7)%	(21.7)%

13. SUBSEQUENT EVENTS

Subsequent to December 31, 2008, KPE received a $5.0 million distribution from the Investment Partnership in order to fund its working capital requirements.

Subsequent to December 31, 2008, one or more affiliates of KKR agreed to purchase $0.2 million of KPE common units through open market transactions over the Euronext Amsterdam stock exchange or in privately negotiated transactions, based on market conditions, pursuant to the Investment Agreement. As required by the Investment Agreement, such purchased common units will be subject to a three-year lock-up. Affiliates investing in KPE's common units will not include KKR's traditional private equity funds.

Subsequent to December 31, 2008 and through February 27, 2009, global capital markets continued to experience duress as the contraction brought on by the global financial and economic crisis continued. We anticipate that worldwide economies and capital markets will remain under stress for the foreseeable future as the investment community works with governmental and regulatory bodies to implement solutions to the credit crisis and restore confidence in global financial systems. As a result, sources of liquidity may be not only more difficult, but also impossible to obtain in the current market environment. In addition, until the close of the first quarter and the completion of the first quarter valuation process, KPE will not know the exact impact of this decline on first quarter valuations or results of operations. The state of the financial markets may also adversely impact other aspects of the business, operations, investments or prospects of KPE in ways that are not currently foreseeable.

* * * * * *

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDIT REPORT

To the Partners of KKR PEI Investments, L.P.:

We have audited the consolidated financial statements of KKR PEI Investments, L.P. and subsidiaries ("the Investment Partnership") for the year ended December 31, 2008 which comprise the consolidated Statement of Assets and Liabilities, the consolidated Schedule of Investments, the consolidated Statement of Operations, the consolidated Statement of Changes in Net Assets, the consolidated Statements of Cash Flows and the related notes 1 to 16 and note 18. These consolidated financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Investment Partnership's partners, as a body, in accordance with section 18 of The Limited Partnerships (Guernsey) Law, 1995. Our audit work has been undertaken so that we might state to the partners those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Investment Partnership and the Investment Partnership's partners as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Managing Investor and the Auditors

As described in the Statement of Responsibility, the Managing Investor is responsible for preparing the consolidated financial statements in accordance with applicable Guernsey law, accounting principles generally accepted in the United States of America and the Dutch Investment Institution Supervision Act insofar applicable.

Our responsibility is to audit the consolidated financial statements in accordance with relevant Guernsey legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view, in accordance with accounting principles generally accepted in the United States of America and have been properly prepared in accordance with The Limited Partnerships (Guernsey) Law, 1995, the Investment Partnership's Limited Partnership Agreement and the Dutch Investment Institution Supervision Act insofar applicable.

In addition we report to you if, in our opinion, the Investment Partnership has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Financial Report as described in the contents section and consider whether it is consistent with the audited consolidated financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any further information outside the Annual Financial Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the Managing Investor in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Investment Partnership's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with accounting principles generally accepted in the United States of America, of the state of the Investment Partnership's affairs as at December 31, 2008 and of its return for the year ended December 31, 2008;
- the consolidated financial statements have been properly prepared in accordance with The Limited Partnerships (Guernsey) Law, 1995 and the Investment Partnership's Limited Partnership Agreement; and
- the consolidated financial statements have been properly prepared in accordance with the Dutch Investment Institution Supervision Act insofar applicable.

Emphasis of Matter – Fair Value of Investments

Without qualifying our audit opinion, we draw attention to the disclosures made in note 2 concerning the valuation of investments. The Directors of the Managing Investor have estimated the fair value of the investments that are not publicly traded at $3,311.4 million (126.0% of net assets) as of December 31, 2008. This value has been estimated by the Directors of the Managing Investor in the absence of readily ascertainable market value. However, because of the inherent uncertainty of the valuation, the estimated value may differ materially from the value that would have been realized had a disposal of the investments been made between a willing buyer and seller.

Deloitte LLP
Chartered Accountants
Guernsey

February 27, 2009

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(Amounts in thousands)

	December 31, 2008	December 31, 2007
ASSETS:		
Investments, at fair value:		
Opportunistic investments—Class A (cost of $84,852 and $512,607, respectively)	$ 41,181	$ 458,792
Co-investments in portfolio companies of private equity funds—Class B (cost of $2,663,611 and $2,635,583, respectively)	1,414,743	2,653,039
Negotiated equity investments—Class B (cost of $992,582 and $992,582, respectively)	649,155	985,557
Private equity funds—Class C (cost of $1,683,609 and $1,813,751, respectively)	1,184,958	1,847,887
Non-private equity fund—Class D (cost of $161,148 and $195,869, respectively)	62,583	189,345
	3,352,620	6,134,620
Cash and cash equivalents	623,316	255,415
Cash and cash equivalents held by a non-private equity fund	88	1,091
Restricted cash	18,011	42,237
Unrealized gain on a foreign currency exchange contract	3,000	—
Other assets	7,689	8,044
Total assets	4,004,724	6,441,407
LIABILITIES:		
Accrued liabilities	37,691	30,730
Due to affiliates	2,864	11,961
Securities sold, not yet purchased (proceeds of $1,785 and $0, respectively)	1,916	—
Options written (proceeds of $0 and $7,290, respectively)	—	5,265
Unrealized loss on foreign currency exchange contracts and an interest rate swap, net	32,331	46,051
Other liabilities	117	182
Revolving credit agreement	951,214	1,002,240
Long-term debt	350,000	350,000
Total liabilities	1,376,133	1,446,429
COMMITMENTS AND CONTINGENCIES	—	—
NET ASSETS	$ 2,628,591	$ 4,994,978
NET ASSETS CONSIST OF:		
Partners' capital contributions	$ 4,836,568	$ 4,836,568
Distributable earnings (loss)	(2,207,977)	158,410
	$ 2,628,591	$ 4,994,978

See accompanying notes to the consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

Investment	Class	December 31, 2008 Cost	Fair Value	Fair Value as a Percentage of Net Assets
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, 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 consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

Investment	Class	December 31, 2007 Cost	Fair Value	Fair Value as a Percentage of Net Assets
INVESTMENTS BY TYPE:				
Opportunistic investments:	A			
Public equities – common stocks		$ 371,667	$ 327,497	6.6 %
Fixed income investment		140,940	128,760	2.6
Derivative instruments		—	2,535	0.0
		512,607	458,792	9.2
Co-investments in portfolio companies of private equity funds:	B			
HCA Inc.		250,000	300,000	6.0
Alliance Boots GmbH		301,352	297,747	6.0
Dollar General Corporation		250,000	250,000	5.0
PagesJaunes Groupe S.A.		235,201	229,038	4.6
NXP B.V.		250,000	215,555	4.3
Biomet, Inc.		200,000	200,000	4.0
Energy Future Holdings Corp.		200,000	200,000	4.0
First Data Corporation		200,000	200,000	4.0
The Nielsen Company B.V.		200,000	200,000	4.0
Capmark Financial Group Inc.		137,321	175,500	3.5
ProSiebenSat.1 Media AG		198,885	160,067	3.2
KION Group GmbH		112,824	125,132	2.5
U.S. Foodservice, Inc.		100,000	100,000	2.0
		2,635,583	2,653,039	53.1
Negotiated equity investments:	B			
Sun Microsystems, Inc. convertible senior notes		701,164	668,150	13.4
Orient Corporation convertible preferred stock		169,706	198,729	4.0
Aero Technical Support & Services S.à r.l. (Aveos)		121,712	118,678	2.3
		992,582	985,557	19.7
Private equity funds:	C			
KKR 2006 Fund L.P.		1,270,416	1,273,596	25.5
KKR European Fund, Limited Partnership		207,695	238,215	4.8
KKR Millennium Fund L.P.		228,365	230,460	4.6
KKR European Fund II, Limited Partnership		83,830	83,226	1.7
KKR Asian Fund L.P.		23,445	22,390	0.4
		1,813,751	1,847,887	37.0
Non-private equity funds – Investments by KKR Strategic Capital Institutional Fund, Ltd.	D	195,869	189,345	3.8
		$ 6,150,392	$ 6,134,620	122.8 %

Continued on the following page.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

	December 31, 2007		
Investment	**Cost**	**Fair Value**	**Fair Value as a Percentage of Net Assets**
INVESTMENTS BY GEOGRAPHY :			
North America	$ 4,011,321	$ 4,041,570	80.9%
Europe	1,748,529	1,690,352	33.8
Asia Pacific	390,542	402,698	8.1
	$ 6,150,392	$ 6,134,620	122.8%
INVESTMENTS BY INDUSTRY :			
Financial Services	$ 1,123,357	$ 1,166,962	23.4%
Retail	1,166,242	1,136,759	22.8
Technology	1,126,907	1,057,091	21.2
Media	997,810	918,228	18.4
Health Care	701,750	757,131	15.1
Industrial	501,249	551,587	11.0
Energy	478,668	487,500	9.8
Chemicals	26,031	37,341	0.7
Consumer Products	28,378	22,021	0.4
	$ 6,150,392	$ 6,134,620	122.8%

See accompanying notes to the consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

	December 31, 2008		December 31, 2007	
Instrument Type/Geography/Industry	**Fair Value**	**Proceeds**	**Fair Value**	**Proceeds**
Asia Pacific - public equities, common stock:				
Index	$ 1,916	$ 1,785	$ —	$ —
	$ 1,916	$ 1,785	$ —	$ —

See accompanying notes to the consolidated financial statements.

CONSOLIDATED SCHEDULES OF OPTIONS WRITTEN
(Amounts in thousands)

	December 31, 2008		December 31, 2007	
Geography/Instrument Type/Industry	**Fair Value**	**Proceeds**	**Fair Value**	**Proceeds**
North America – public equities, common stock:				
Energy	$ —	$ —	$ 5,265	$ 7,290
	$	$	$ 5,265	$ 7,290

See accompanying notes to the consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands)

	Year Ended	
	December 31, 2008	**December 31, 2007**
INVESTMENT INCOME:		
Interest income, net of withholding taxes of $155 and $0, respectively	$ 36,250	$ 102,605
Dividend income, net of withholding taxes of $394 and $1,446, respectively	9,121	24,197
Total investment income	45,371	126,802
EXPENSES:		
Management fees	43,057	46,629
Incentive fees	—	956
Interest expense	61,843	48,557
Dividend expense	1,320	—
General and administrative expenses	3,855	4,677
Total expenses	110,075	100,819
NET INVESTMENT INCOME (LOSS)	(64,704)	25,983
REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY:		
Net realized gain (loss), net of withholding tax (benefit) of $(37) and $977, respectively	(104,573)	113,432
Net change in unrealized depreciation	(2,182,110)	(136,642)
Net loss on investments and foreign currency transactions	(2,286,683)	(23,210)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	$ (2,351,387)	$ 2,773

See accompanying notes to the consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

	General Partner	Limited Partner	Total
NET ASSETS—DECEMBER 31, 2006	$ 10,454	$ 5,035,945	$ 5,046,399
DECREASE IN NET ASSETS FROM OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2007:			
Net investment income	150	25,833	25,983
Net realized gain on investments and foreign currency transactions	236	113,196	113,432
Net change in unrealized depreciation on investments and foreign currency transactions	(283)	(136,359)	(136,642)
Net increase in net assets resulting from operations	103	2,670	2,773
Fair value of distributions	(112)	(54,082)	(54,194)
DECREASE IN NET ASSETS	(9)	(51,412)	(51,421)
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

See accompanying notes to the consolidated financial statements.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year Ended December 31, 2008	Year Ended December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase (decrease) in net assets resulting from operations	$ (2,351,387)	$ 2,773
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to cash and cash equivalents provided by (used in) operating activities:		
Amortization of deferred financing costs	869	505
Net realized loss (gain) on investments	104,573	(113,432)
Net change in unrealized depreciation on investments	2,198,830	96,303
Increase (decrease) in net unrealized loss on foreign currency exchange contracts and an interest rate swap	(16,720)	40,339
Changes in operating assets and liabilities:		
Purchase of opportunistic investments	(124,078)	(969,179)
Purchase of securities to settle short sales	(244,936)	—
Purchase of options	(7,121)	(1,805)
Purchase of co-investments in portfolio companies of private equity funds	(28,028)	(1,685,438)
Purchase of negotiated equity investments	—	(642,582)
Purchase of investments by private equity funds	(199,211)	(1,269,765)
Purchase of investments by KKR Strategic Capital Institutional Fund, Ltd.	(14,249)	(130,031)
Proceeds from sale of opportunistic investments	446,484	633,207
Proceeds from securities sold short, not yet purchased	259,085	—
Proceeds from options written	3,529	12,528
Proceeds from the termination of certain transactions under forward foreign exchange contracts	38,381	—
Proceeds from sale of investments by private equity funds	321,788	174,934
Proceeds from sale of investments by KKR Strategic Capital Institutional Fund, Ltd.	2,013	19,245
Decrease (increase) in cash and cash equivalents held by a non-private equity fund	1,003	(1,091)
Decrease in time deposit	—	1,000,000
Decrease (increase) in other assets	(514)	24,058
Decrease (increase) in restricted cash	24,226	(42,237)
Increase in accrued liabilities	6,961	29,227
Increase (decrease) in due to affiliates	(9,097)	6,239
Decrease in other liabilities	(65)	(17,916)
Net cash flows provided by (used in) operating activities	412,336	(2,834,118)

Continued on the following page.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under the revolving credit agreement	549,921	999,266
Payments on borrowings under the revolving credit agreement	(565,324)	—
Distributions to partners	(15,000)	(54,194)
Deferred financing costs	—	(4,405)
Net cash flows provided by (used in) financing activities	(30,403)	940,667
Effect of foreign exchange rate changes on cash	(14,032)	9,245
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	367,901	(1,884,206)
CASH AND CASH EQUIVALENTS—Beginning of period	255,415	2,139,621
CASH AND CASH EQUIVALENTS—End of period	$ 623,316	$ 255,415
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 50,381	$ 17,938
NON-CASH FINANCING ACTIVITIES:		
Increase (decrease) in revolving credit agreement - foreign currency adjustments	$ (20,730)	$ 2,974
Increase in long-term debt related to Sun financing	—	350,000

See accompanying notes to the consolidated financial statements.

1. BUSINESS

KKR PEI Investments, L.P. (the "Investment Partnership") is a Guernsey limited partnership that is comprised of (i) KKR PEI Associates, L.P. (the "Associate Investor"), which holds 100% of the general partner interests in the Investment Partnership and is responsible for managing its business and affairs, and (ii) KKR Private Equity Investors, L.P. ("KPE"), which holds 100% of the limited partner interests in the Investment Partnership and does not participate in the management of the business and affairs of the Investment Partnership. The general partner interests and the limited partner interests represented 0.2% and 99.8%, respectively, of the total interests in the Investment Partnership as of December 31, 2008 and December 31, 2007. Because the Associate Investor is itself a Guernsey limited partnership, its general partner, KKR PEI GP Limited (the "Managing Investor"), a Guernsey limited company that is owned by individuals affiliated with Kohlberg Kravis Roberts & Co. L.P. (together with its applicable affiliates, "KKR"), is effectively responsible for managing the Investment Partnership's business and affairs.

The Investment Partnership is the partnership through which KPE and the Associate Investor make the following investments:

- "**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.
- "**Opportunistic investments**" are any investments identified by KKR in the course of its business other than private equity investments, including public equities and fixed income investments.
- "**Temporary investments**" are investments made in connection with cash management activities.

The Investment Partnership's limited partnership agreement provides that its investments must comply with the investment policies and procedures that are established from time to time by the board of directors of KPE's general partner (the "Managing Partner"). The investment policies and procedures currently provide, among other things, that the Investment Partnership will 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. As of December 31, 2008, the Investment Partnership had invested 96.0% of its adjusted assets in private equity and temporary investments and 4.0% of its adjusted assets in opportunistic investments. "Adjusted assets" are defined as the Investment Partnership's consolidated assets less the amount of indebtedness that is recorded as a liability on its consolidated statements of assets and liabilities.

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

	Type of Investments Held by the 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 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 Investment Partnership, the Associate Investor, the Managing Investor, KPE and the Managing Partner have 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.

On July 27, 2008, KPE and KKR & Co. L.P. ("Acquirer"), together with certain other related parties, entered into a purchase and sale agreement (the "Sale Agreement"), whereby the Acquirer agreed to acquire all of the assets and to assume all the liabilities of KPE in return for the issuance to KPE unitholders of certain interests in KKR & Co. L.P (the "Transaction"). The Associate Investor signed the Sale Agreement solely for purposes of Section 1.4 thereof to consent to the transfer of all of the limited partner interests of the Investment Partnership to the Acquirer. The financial world and markets have changed dramatically since July 2008. The Acquirer and the independent directors of the Managing Partner's Board of Directors are in the process of evaluating the impact of these changes on the continued advisability of the Transaction and hope to complete their analysis over the next several weeks.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the 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 Investment Partnership and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The 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 Investment Partnership's investments involves estimates that are subject to the Managing Investor's judgment. The financial statements reflect all adjustments which are, in the opinion of the Managing Investor, necessary to fairly state the results for the periods presented.

The 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 end on March 31, June 30, September 30 and December 31. The financial results presented herein include activity for the years ended December 31, 2008 and December 31, 2007.

The Managing Investor has reviewed the current cash balance of the Investment Partnership and its future obligations and expects the Investment Partnership to continue as a going concern for at least the next year. As detailed under "Management's Overview – Liquidity and Capital Resources" included elsewhere within this report, this assessment is based on historic and predicted timing of capital calls for the Investment Partnership's unfunded commitments, its expected operating expenses, present sources of liquidity, its borrowing facilities and the ability to raise cash through sales of investments and other activities.

The Investment Partnership operates through one reportable business segment for management reporting purposes.

Reclassifications

Certain prior period amounts have been reclassed to conform to the current period's presentation.

Valuation of Investments

The investments carried as assets in the 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 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

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Investment Partnership adopted SFAS No. 157 on January 1, 2008. SFAS No. 157 establishes a hierarchal disclosure framework 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 – A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available. The type of investments included in Level I include listed public equities and listed derivatives. In addition, securities sold, not yet purchased and options written by the Investment Partnership are included in Level I. As required by SFAS No. 157, the Investment Partnership does not adjust the quoted price for these investments, even in situations where it holds a large position and a sale could reasonably impact the quoted price.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include negotiated equity investments convertible to a listed public equity and certain fixed income investments.

Level III – Pricing inputs are unobservable inputs 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. Investments that are included in this category generally include direct co-investments in portfolio companies, limited partner interests in private equity funds, negotiated equity investments not convertible into a listed public equity and certain investments by a non-private equity fund.

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 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.

In accordance with SFAS No. 157, 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 render the fair value measurement at a level lower than Level I.

Valuation of Investments When a Market Quotation is Not Readily Available

Investments that do not have a readily available market value are valued using fair value pricing, as determined in good faith. Generally, investments that do not have a readily available market are valued at an amount that is based on the value the holder would receive if such investments were sold in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. In certain cases, an investment made by the Investment Partnership may itself not have a readily available market value but is based on a reference asset for which a market quotation is readily available. In these cases, the investment is valued using fair value pricing, as determined in good faith, based on the period-end market prices for the reference asset generally in accordance with the principles discussed above under "Valuation of Investments When a Market Quotation is Readily Available."

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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 is determined.

	Valuation Methodology when Determining Fair Value in Good Faith
Level II:	
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	The value is generally based on the period-end market price of the reference asset for which a market quotation is readily available, which is adjusted for one or more factors deemed relevant for the fair value of the investment, which may include, but are 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.
Level III:	
Limited partner interests in KKR's private equity funds and investments by a non-private equity fund	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 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 does not represent fair value. Each fund's net asset value will increase or decrease 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.
Investments in companies for which a market quotation is not readily available	Generally, a combination of two methods, 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, and/or a discounted cash flow or liquidation analysis, is used. 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 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.

The fair values of such investments were 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. Additionally, widespread economic uncertainty and indeterminate financial markets could have a material impact on 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 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 or loss from investments and foreign currency transactions in the consolidated statements of operations.

Derivatives

The Investment Partnership purchases derivative financial instruments for opportunistic investing and for hedging purposes, which include total return swaps and options. In a total return swap, the 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.

When the Investment Partnership writes an option, an amount equal to the premium received is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Investment Partnership on the expiration date as realized gains from investments. The difference between the premium and amount paid, including brokerage commissions, is 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 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 Investment Partnership. The 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. See Note 6, "Derivatives" for transactions in call options written during the years ended December 31, 2008 and December 31, 2007.

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 Investment Partnership's derivative agreements are major financial institutions with which the Investment Partnership and its affiliates may also have other financial relationships. The Investment Partnership endeavors to minimize its risk of exposure by dealing with reputable counterparties, although there is no assurance that these counterparties will remain solvent in the current market environment.

Derivative contracts, including total return swaps and option contracts, are recorded at estimated fair value with changes in fair value recorded as unrealized appreciation or depreciation. The fair values of total return swap contracts are included within opportunistic investments and options written are included in liabilities in the Investment Partnership's statements of assets and liabilities.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in banks and liquid investments with maturities, at the date of acquisition, not exceeding 90 days. As of December 31, 2008 and December 31, 2007, 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 December 31, 2008 and December 31, 2007, restricted cash primarily represented amounts pledged to third parties in connection with certain derivative instruments, which included foreign currency forward contracts and an interest rate swap contract.

Other Assets

As of December 31, 2008 and December 31, 2007, 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:

	December 31, 2008	December 31, 2007
Accrued interest, long-term debt	$ 36,719	$ 20,357
Accrued interest, revolving credit agreement	481	9,198
Professional fees......................................	403	1,175
Other	88	—
	$ 37,691	$ 30,730

Due to Affiliates

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

	December 31, 2008	December 31, 2007
Management fees and reimbursable expenses payable to KKR by the Investment Partnership..........................	$ 2,851	$ 10,767
Management and incentive fees payable to KKR by SCF	13	1,194
	$ 2,864	$ 11,961

Foreign Currency Contracts

The Investment Partnership has 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 Investment Partnership agreed to deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed-upon future date. The net 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 Liabilities

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

Net Assets

As of December 31, 2008 and December 31, 2007, the net assets attributable to the general partner were $5.6 million and $10.5 million, respectively, and to the limited partner were $2,623.0 million and $4,984.5 million, respectively.

Income Recognition

The assets of the Investment Partnership generate income in the form of capital gains, dividends and interest. Income is recognized when earned. The 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. 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 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.

Transactions involving publicly quoted securities are accounted for on the trade date (the date the order to buy or sell is executed). Capital gains and losses on sales of securities are determined on the identified cost basis.

Expense Recognition

Expenses are recognized when incurred and consist primarily of the Investment Partnership’s allocated share, if applicable, of the total management fees that are payable under the services agreement, incentive fees, interest expense, expenses of KKR that are attributable to the Investment Partnership’s operations and reimbursable under the services agreement and general and administrative expenses.

Incentive fees were comprised of fees incurred by KKR Strategic Capital Institutional Fund, Ltd. (“SCF”). See Note 12, “Distributions.”

Interest expense was comprised primarily of interest related to outstanding borrowings under the Investment Partnership’s revolving credit facility, the Investment Partnership’s financing of its investment in Sun Microsystems, Inc. (“Sun”), the amortization of debt financing costs, stock borrow costs, breakage costs and commitment fees associated with the revolving credit facility. See Note 8, “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.

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

Taxes

The Investment Partnership is not a taxable entity in Guernsey and has made a protective election to be treated as a partnership for U.S. federal income tax purposes and, therefore, incurs no U.S. federal income tax liability. Certain subsidiaries of the Investment Partnership have also made elections to be treated as disregarded entities for U.S. federal income tax purposes. Each partner takes into account its allocable share of items of income, gain, loss and deduction of the Investment Partnership in computing its U.S. federal income tax liability. Items of income, gain, loss, deduction and credit of certain of the Investment Partnership's subsidiaries are treated as items of the Investment Partnership for U.S. federal income tax purposes. The Investment Partnership has filed U.S. federal tax returns for the 2006 and 2007 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 December 31, 2008 and December 31, 2007, the majority of the Investment Partnership's cash and cash equivalents and restricted cash balances were held by three financial institutions. As of December 31, 2008 and December 31, 2007, the public equities owned or sold but not yet purchased and options written by the Investment Partnership were held by or effectuated through one financial institution. As of December 31, 2008 and December 31, 2007, cash and cash equivalent balances of a non-private equity fund were held by one financial institution.

Guarantees

Pursuant to FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees,* at the inception of guarantees issued, the Investment Partnership will record 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. The Investment Partnership did not have any such guarantees in place as of December 31, 2008 or December 31, 2007.

Recently Issued Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*, which was effective for fiscal years beginning after December 15, 2006. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a comprehensive model for how an entity should recognize, measure, present and disclose in its financial statements uncertain tax positions that the entity has taken or expects to take on a tax return. The Investment Partnership adopted FIN No. 48 during the year ended December 31, 2007. FIN No. 48 did not have a material impact on the consolidated financial statements of the Investment Partnership.

Measuring Fair Value

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Investment Partnership adopted SFAS No. 157 during the first quarter of 2008. SFAS No. 157 did not have a material impact on the consolidated financial statements of the Investment Partnership.

In October 2008, the FASB issued 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 clarifies the application of SFAS No. 157 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. FSP No. 157-3 was effective upon issuance and did not have a material impact on the consolidated financial statements of the Investment Partnership.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 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 Investment Partnership adopted SFAS No. 159 during the first quarter of 2008. SFAS No. 159 did not have a material impact on the consolidated financial statements of the Investment Partnership.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*. SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Investment Partnership is currently evaluating the impact of adopting SFAS No. 161 on its consolidated financial statements.

Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles.* SFAS No. 162 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 is effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Presented Fairly in Conformity with Generally Accepted Accounting Principles*. The Investment Partnership is currently evaluating the impact of adopting SFAS No. 162 on its consolidated financial statements.

3. INVESTMENTS

Significant Investments

The Investment Partnership's significant investments, which include aggregate private equity investments, with fair values in excess of 5% of the Investment Partnership's net assets were as follows, with amounts in thousands, except percentages:

	December 31, 2008		
	Cost	**Fair Value**	**Fair Value as a Percentage of the 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
First Data Corporation	412,293	247,376	9.4
HCA Inc.	309,476	247,581	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%

	December 31, 2007		
	Cost	Fair Value	Fair Value as a Percentage of the Investment Partnership's Net Assets
KKR Portfolio Companies (1):			
Alliance Boots GmbH	$ 490,008	$ 486,403	9.7%
First Data Corporation	469,633	469,633	9.4
Energy Future Holdings Corp.	413,636	413,636	8.3
HCA Inc.	323,582	385,355	7.7
Dollar General Corporation	371,288	371,288	7.4
Biomet, Inc.	333,252	333,252	6.7
Negotiated Equity Investments:			
Sun Microsystems, Inc. (2)	701,164	668,150	13.4
	$ 3,102,563	$ 3,127,717	62.6%

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

(2) The Investment Partnership financed $350.0 million related to the Sun investment, for a net fair value investment of $150.5 million, or 5.7% of the Investment Partnership's total net assets, as of December 31, 2008 and $318.2 million, or 6.4% of the Investment Partnership's total net assets, as of December 31, 2007.

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

	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

	December 31, 2007		
	Fair Value of Co-Investment	Pro Rata Share of KKR's Private Equity Fund Investment	Aggregate Fair Value
Alliance Boots GmbH	$ 297,747	$ 188,656	$ 486,403
First Data Corporation	200,000	269,633	469,633
Energy Future Holdings Corp.	200,000	213,636	413,636
HCA Inc.	300,000	85,355	385,355
Dollar General Corporation	250,000	121,288	371,288
Biomet, Inc.	200,000	133,252	333,252
	$ 1,447,747	$ 1,011,820	$ 2,459,567

The Investment Partnership's investments in private equity funds, co-investments and negotiated equity investments consist of securities that are not registered under the U.S. Securities Act of 1933, as amended (the "Act"). The 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 Investment Partnership has the right, acting together with its affiliates, to demand the registration of the securities of the portfolio companies of the Investment Partnership's co-investments and negotiated equity investments under the Act if a distribution of those securities would be 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 consist 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 formed in the second quarter of 2007, 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:

	December 31, 2008	December 31, 2007
Investment in Strategic Capital Holdings I, L.P., at fair value	$ 56,957	$ 182,772
Special investments, at fair value	5,626	6,573
	$ 62,583	$ 189,345

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

	December 31, 2008	December 31, 2007
Assets:		
Cash and cash equivalents	$ 2,525	$ 33,092
Restricted cash and cash equivalents	36,259	45,492
Securities, at fair value	5,310	45,208
Private equity investments, at fair value	369	—
Corporate loans, at fair value	6,277	3,413
Reverse repurchase agreements	5,344	15,660
Derivative assets	7,661	3,119
Collateralized loan obligation ("CLO") junior notes in affiliates	27,259	73,765
Investments in unconsolidated affiliate	—	20,688
Principal and interest receivable	3,664	4,404
Interest receivable from affiliated CLOs	—	3,949
Other assets	530	568
Total assets	95,198	249,358
Liabilities:		
Repurchase agreements	1,065	37,173
Interest and principal payable	237	300
Securities sold, not yet purchased, at fair value	5,238	19,363
Derivative liabilities	22,874	9,750
Other payables	8,827	—
Total liabilities	38,241	66,586
Net assets	$ 56,957	$ 182,772

As of December 31, 2008 and December 31, 2007, SCF had an investment balance of $5.6 million and $6.6 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 addition to the aggregate private equity investments reflected above under "Significant Investments," SCF, through its investment in SCH, invested in debt securities in these portfolio companies as follows, with amounts in thousands:

	Fair Value as of December 31, 2008	Fair Value as of December 31, 2007
Energy Future Holdings Corp. (1)	$ (990)	$ 4,941
Dollar General Corporation	—	4,427
Biomet, Inc.	—	2,313
First Data Corporation	—	1,292
HCA Inc. (1)	—	(654)
	$ (990)	$ 12,319

(1) Investments in debt securities were executed with derivative instruments.

4. FAIR VALUE MEASUREMENTS

The fair value of the Investment Partnership's investments categorized by the SFAS No. 157 fair value hierarchy levels were as follows, with amounts in thousands:

	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 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
Realized loss on investments	(54,527)
Net unrealized loss on investments and foreign currency transactions	(1,779,826)
Transfers out	(131,207)
Fair value of investments as of December 31, 2008	$ 2,662,284

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 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 may involve a market risk in excess of the amount currently reflected in the Investment Partnership's consolidated statement of assets and liabilities. As of December 31, 2008, the fair value of securities sold short, not yet purchased was $1.9 million. During the years ended December 31, 2008 and December 31, 2007, net realized gain (loss) on investments and foreign currency transactions included $12.4 million and $0, respectively, from closed positions in securities sold, not yet purchased.

6. DERIVATIVES

The Investment Partnership purchased derivative financial instruments for investing purposes, which included total return swaps and options, and were held at fair value. The fair value of the derivative instruments included in opportunistic investments in the Investment Partnership's statement of assets and liabilities and related notional amounts were as follows, with amounts in thousands:

	December 31, 2008	December 31, 2007
Derivative instruments included in opportunistic investments:		
Fair value	$ —	$ 2,535
Notional amounts	—	49,751

Changes in the fair value of these financial instruments were recognized in the results of operations.

Transactions in call options written during the years ended December 31, 2008 and December 31, 2007 were as follows, with premiums received in thousands:

	Number of Contracts	Premiums Received
Options outstanding as of December 31, 2006	—	$ —
Options written	29,132	12,528
Options terminated in closing purchase transactions	(18,228)	(5,238)
Options outstanding as of December 31, 2007	10,904	7,290
Options written	6,567	3,528
Options terminated in closing purchase transactions	(17,471)	(10,818)
Options outstanding as of December 31, 2008	—	$ —

Premiums received with respect to options written were recorded net of unrealized gains, which resulted in fair values as follows on the Investment Partnership's statement of assets and liabilities, with amounts in thousands:

	December 31, 2008	December 31, 2007
Premiums received for options written..................	$ —	$ 7,290
Unrealized gain	—	(2,025)
	$ —	$ 5,265

During the years ended December 31, 2008 and December 31, 2007, the net realized gain (loss) on investments and foreign currency transactions included $1.9 million and $2.7 million, respectively, from the expiration or closing of options.

7. FORWARD CURRENCY AND INTEREST RATE SWAP CONTRACTS

The 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:

	December 31, 2008	December 31, 2007
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...........................	$ (19,792)	$ (3,995)
€150.0 million vs. $209.0 million for settlement in February 2013	—	(8,111)
€196.9 million vs. $265.6 million for settlement in September 2011	—	(15,343)
€180.7 million vs. $246.3 million for settlement in February 2012	—	(13,638)
€85.8 million vs. $117.9 million for settlement in December 2011	—	(4,691)
€17.0 million vs. $24.1 million for settlement in November 2008	—	(348)
€18.4 million vs. $25.0 million for settlement in November 2009	—	75
	(19,792)	(46,051)
Interest rate swap contract.............................	(12,539)	—
	$ (32,331)	$ (46,051)

During the year ended December 31, 2008, the forward foreign currency exchange contracts with a zero balance represented certain terminated transactions.

In February 2008, an interest rate swap transaction related to the U.S. dollar denominated borrowings outstanding under the Investment Partnership's five-year revolving credit agreement ("Credit Agreement") with a notional amount of $350.0 million became effective. In this transaction, the Investment Partnership receives 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.

8. REVOLVING CREDIT AGREEMENT AND LONG-TERM DEBT

Revolving Credit Agreement

In June 2007, the Investment Partnership entered into the Credit Agreement with a syndicate of financial institutions. The Credit Agreement provides for up to $1.0 billion of senior secured credit, subject to availability under a borrowing base determined by the value of certain investments of the Investment Partnership pledged as collateral security for its obligations. 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 December 31, 2008, $2,774.0 million of the Investment Partnership's assets were pledged as collateral to the Credit Agreement.

In October 2008, Lehman Commercial Paper Inc. ("Lehman"), an original lender under the Credit Agreement with an initial aggregate $75.0 million commitment filed for bankruptcy and was responsible for funding an additional $43.8 million in commitments as of December 31, 2008. Due to Lehman's bankruptcy, we believe that Lehman will not fund any part of its remaining commitments. Therefore, the remaining availability under the Credit Agreement has effectively been reduced from $48.8 million absent Lehman's bankruptcy to $5.0 million in unfunded commitments as of December 31, 2008, or from $1.0 billion to $925.0 million in total commitments, unless Lehman's commitments are assigned to another existing or new lender. There can be no assurance that any lender will assume any part of Lehman's commitment under the Credit Agreement.

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 Investment Partnership must pay an annual commitment fee of 0.2% on the undrawn commitments under the Credit Agreement. During the years ended December 31, 2008, interest expense related to borrowings under the Credit Agreement, including commitment fees, breakage costs and the amortization of debt financing costs, were $43.4 million. During the year ended December 31, 2007, interest expense related to borrowings under the Credit Agreement, including commitment fees and the amortization of debt financing costs, were $26.8 million.

Pursuant to covenants in the Credit Agreement, the 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 December 31, 2008, the 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. Borrowings under the Credit Agreement may be used for general business purposes of the Investment Partnership, including the acquisition and funding of investments. The Investment Partnership's borrowings outstanding under the Credit Agreement were as follows, with amounts in thousands:

	December 31, 2008	December 31, 2007
Borrowings	$ 968,970	$ 999,266
Foreign currency adjustments:		
Unrealized gain related to borrowings denominated in British pounds sterling	(14,058)	(3,237)
Unrealized loss (gain) related to borrowings denominated in Canadian dollars	(3,698)	6,211
Total borrowings outstanding	$ 951,214	$ 1,002,240

As of December 31, 2008, the Investment Partnership had $48.8 million available for future borrowings under the Credit Agreement, although we expect that only $5.0 million will be funded in light of the bankruptcy of Lehman, which had an initial aggregate commitment of $75.0 million.

During the years ended December 31, 2008 and December 31, 2007, the average dollar amount of borrowings related to the revolving credit agreement was $799.2 million and $392.2 million, respectively, and the average interest rate was 4.6% and 6.7%, respectively.

If total borrowings outstanding exceed 105% of the $1.0 billion available under the Credit Agreement due to fluctuations in foreign exchange rates, the Investment Partnership may be required to make certain prepayments on outstanding borrowings. As of December 31, 2008 and December 31, 2007, the Investment Partnership was not subject to such prepayment requirements.

Long-Term Debt

During the year ended December 31, 2007, the 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 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 Investment Partnership has the right to vote the Pledged Notes and the financial institution is obligated to follow the instructions of the Investment Partnership, subject to certain exceptions, so long as default does not exist under the security agreements or the underlying swap agreements. The Investment Partnership is also restricted from transferring the Pledged Notes without the consent of the financial institution.

At settlement, the Investment Partnership will be entitled to receive payment equal to any appreciation on the value of the Swap Notes and the 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 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 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. 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. During the years ended December 31, 2008 and December 31, 2007, interest expense related to the Investment Partnership's financing of the Sun investment was $16.4 million and $20.4 million, respectively.

The Pledged Notes are held by wholly-owned subsidiaries formed by the 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 Investment Partnership.

During the years ended December 31, 2008 and December 31, 2007, the average dollar amount of borrowings related to the long-term debt was $350.0 million and $326.0 million, respectively, and the average interest rate was 4.0% and 6.2%, respectively.

Fair Value

The Investment Partnership believes the carrying value of its debt approximates fair value as of December 31, 2008 and December 31, 2007.

Principal Payments

As of December 31, 2008, the 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	$ 951,214	$ —	$ —	$ 951,214	$ —
Long-term debt	350,000	—	—	175,000	175,000
Total	$ 1,301,214	$ —	$ —	$ 1,126,214	$ 175,000

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9. DISTRIBUTABLE EARNINGS (LOSS)

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

	Interests				
	Opportunistic and Temporary Investments	Co-Investments and Negotiated Equity Investments	Private Equity Funds	Non-Private Equity Funds	Total
Distributable earnings as of December 31, 2006	$ 128,758	$ 2,208	$ 72,957	$ 5,908	$ 209,831
Net increase (decrease) in net assets resulting from operations during the year ended December 31, 2007	(24,138)	(40,275)	58,830	8,356	2,773
Distribution to partners	(54,194)	—	—	—	(54,194)
Distributable earnings (loss) as of December 31, 2007	50,426	(38,067)	131,787	14,264	158,410
Net decrease in net assets resulting from operations during the year ended December 31, 2008	(146,090)	(1,546,895)	(531,721)	(126,681)	(2,351,387)
Distribution to partners	(15,000)	—	—	—	(15,000)
Distributable loss as of December 31, 2008	$ (110,664)	$ (1,584,962)	$ (399,934)	$ (112,417)	$ (2,207,977)

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

As of December 31, 2008 and December 31, 2007, the accumulated undistributed net investment income was $91.9 million and $156.6 million, respectively. The accumulated undistributed net realized gain on investments and foreign currency transactions was $43.5 million and $148.1 million as of December 31, 2008 and December 31, 2007, respectively. The accumulated undistributed net unrealized depreciation on investments and foreign currency transactions was $2,235.2 million and $53.1 million as of December 31, 2008 and December, 31, 2007, respectively.

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10. OPERATING RESULTS ALLOCATED TO THE GENERAL AND LIMITED PARTNERS

Operating results for the general and limited partners of the 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.

	Year Ended December 31, 2008		
	General Partner	Limited Partner	Total
Investment income:			
Interest income, net of withholding taxes of $0, $155 and $155, respectively	$ 75	$ 36,175	$ 36,250
Dividend income, net of withholding taxes of $1, $393 and $394, respectively	19	9,102	9,121
Total investment income	94	45,277	45,371
Expenses:			
Management fees	—	43,057	43,057
Interest expense	128	61,715	61,843
Dividend expense	3	1,317	1,320
General and administrative expenses	10	3,845	3,855
Total expenses	141	109,934	110,075
Net investment loss	(47)	(64,657)	(64,704)
Realized and unrealized loss from investments and foreign currency:			
Net realized loss, net of withholding benefit of $0, $(37) and $(37), respectively	(217)	(104,356)	(104,573)
Net change in unrealized depreciation	(4,529)	(2,177,581)	(2,182,110)
Net loss on investments and foreign currency transactions	(4,746)	(2,281,937)	(2,286,683)
Net decrease in net assets resulting from operations	$ (4,793)	$ (2,346,594)	$ (2,351,387)

	Year Ended December 31, 2007		
	General Partner	Limited Partner	Total
Investment income:			
Interest income	$ 212	$ 102,393	$ 102,605
Dividend income, net of withholding taxes of $3, $1,443 and $1,446, respectively	50	24,147	24,197
Total investment income	262	126,540	126,802
Expenses:			
Management fees	—	46,629	46,629
Incentive fees	2	954	956
Interest expense	101	48,456	48,557
General and administrative expenses	9	4,668	4,677
Total expenses	112	100,707	100,819
Net investment income	150	25,833	25,983
Realized and unrealized gain (loss) from investments and foreign currency:			
Net realized gain, net of withholding taxes of $2, $975 and $977, respectively	236	113,196	113,432
Net change in unrealized depreciation	(283)	(136,359)	(136,642)
Net loss on investments and foreign currency transactions	(47)	(23,163)	(23,210)
Net increase in net assets resulting from operations	$ 103	$ 2,670	$ 2,773

11. NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION)

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Opportunistic investments	$ 8,261	$ (56,051)
Temporary investments:		
Interest rate swaps	(12,539)	—
Foreign currency adjustments	20,731	6,271
	8,192	6,271
Co-investments:		
Dollar General	25,000	—
PagesJaunes Groupe S.A.	(229,038)	(6,163)
NXP B.V.	(190,555)	(44,308)
ProSiebenSat.1 Media AG	(165,935)	(38,818)
Capmark Financial Group Inc.	(162,000)	40,500
Alliance Boots GmbH	(122,624)	(3,606)
KION Group GmbH	(101,170)	11,930
HCA Inc.	(100,000)	50,000
First Data Corporation	(80,000)	—
Energy Future Holdings Corp.	(60,000)	—
Biomet, Inc.	(40,000)	—
The Nielsen Company B.V.	(20,000)	—
U.S. Foodservice, Inc.	(20,000)	—
Forward foreign currency exchange contracts	44,782	(36,070)
	(1,221,540)	(26,535)
Negotiated equity investments:		
Sun Microsystems, Inc.	(167,650)	(33,014)
Aero Technical Support & Services S.à r.l. (Aveos)	(118,678)	(3,034)
Orient Corporation	(65,872)	25,028
	(352,200)	(11,020)
Investments in private equity funds:		
KKR Asian Fund	(15,743)	(1,055)
KKR 2006 Fund	(287,747)	3,180
KKR European Fund	(104,336)	(25,549)
KKR Millennium Fund.	(73,729)	(11,124)
KKR European Fund II	(47,299)	(2,241)
KKR European Fund III	(3,927)	—
	(532,781)	(36,789)
Investments in a non-private equity fund	(92,042)	(12,518)
	$ (2,182,110)	$ (136,642)

12. 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 year ended December 31, 2008, the Investment Partnership made distributions of $15.0 million to its general and limited partners based on their pro rata partner interests. KPE used its pro rata share for working capital requirements.

Except as described below, each investment that is made by the 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.

Until the profits on the Investment Partnership's consolidated investments that are subject to a carried interest or incentive distribution right equal the managers' commissions, placement fees and other expenses incurred in connection with KPE's initial offering and related transactions, the Associate Investor will forego its carried interest and incentive distribution rights on opportunistic, temporary investments, co-investments and negotiated equity investments, subject to certain limitations. See Note 13, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."

Distributions in Respect of Class A; Opportunistic and Temporary Investments	• The Associate Investor is 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 is measured at the end of each annual accounting period. • The amount of appreciation is increased to reflect withdrawals of capital and decreased to reflect capital contributions for opportunistic and temporary investments. • Incentive distribution payable is temporarily waived, as discussed in Note 13, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."

During the one-year period following the commencement of the 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 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 Investment Partnership acquires 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 will be adjusted as follows:

- For any interest acquired at a discount, a gain will be reflected equal to the difference, if positive, between (i) the net asset value of the fund that is 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 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 will be 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 is 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 Investment Partnership since the date of acquisition).

To the extent that the Investment Partnership disposes of any interest in a KKR fund at a price that is greater or less than net asset value, a similar adjustment will be performed. For purposes of the above, the Associate Investor may elect 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 has been recovered and all prior realized losses for other co-investments and negotiated equity investments have been recovered. • The Associate Investor may make distributions to itself in respect of its Class B carried interest without making corresponding distributions to the limited partner. • Carried interest payable is temporarily waived, as discussed in Note 13, “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 may offset the management fee payable under the services agreement for a limited time as discussed in Note 13, “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 may vary from fund to fund. • The gains and losses of investments are not netted across funds and each carried interest or incentive distribution applies only to the results of an individual fund. • Class D incentive distributions paid may offset the management fee payable under the services agreement for a limited time as discussed in Note 13, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."

Incentive fees of $1.0 million were incurred by SCF during the year ended December 31, 2007, respectively. SCF did not incur any incentive fees during the year ended December 31, 2008.

13. RELATIONSHIP WITH KKR AND RELATED PARTY TRANSACTIONS

In connection with the formation of KPE and the initial offering of its common units, affiliates of KKR contributed $75.0 million in cash to the Investment Partnership and KPE, of which $10.0 million was contributed to the Investment Partnership in respect of general partner interests in the Investment Partnership and $65.0 million was contributed to KPE 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 assists the Investment Partnership and KPE in selecting, evaluating, structuring, diligencing, negotiating, executing, monitoring and exiting investments and managing the uninvested cash of the Investment Partnership and also provides financial, legal, tax, accounting and other administrative services. These investment activities are 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 Investment Partnership, the Associate Investor, the Managing Investor, KPE and the Managing Partner have 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 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.

Management Fees

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

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

(1) Generally, subsequent to May 10, 2007, equity for purposes of the management fee is approximately equal to KPE'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 Investment Partnership is invested.

For the purposes of calculating the management fee under the services agreement, "equity" is defined as the sum of the net proceeds in cash or otherwise from each issuance of KPE'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 KPE'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 KPE paid for repurchases of KPE's limited partner interests.

The foregoing calculation of "equity" will be 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. During the one-year period following the commencement of KPE's operations, through May 10, 2007, for the purpose of the management fee calculation, equity did not include any portion of the proceeds from the initial offering and related transactions while such proceeds were invested in temporary investments or any distributable earnings that were generated by such temporary investments.

The management fee payable under the services agreement will be reduced in current or future periods by an amount equal to the sum of (i) any cash that the Investment Partnership and the other service recipients, as limited partners of KKR's investment funds, pay to KKR or its affiliates during such period in respect of management fees of such funds (or capital that the 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, (ii) management fees, if any, that the Investment Partnership may pay third parties in the future in connection with investments and (iii) until the profits on the Investment Partnership's consolidated investments that are subject to a carried interest or incentive distribution right equal the managers' commissions, placement fees and other expenses incurred in connection with KPE's initial offering and related transactions, carried interests and incentive distributions made pursuant to the terms of the investment funds in which the Investment Partnership is invested, subject to certain limitations.

The reduction of the management fee payable under the services agreement by the amount of carried interests or incentive distribution rights paid pursuant to the terms of KKR's investment funds is limited to 5% of KPE's gross income (other than income that qualifies as capital gains) for U.S. federal income tax purposes for a taxable year minus any gross income earned by or allocated to KPE for U.S. federal income tax purposes during such taxable year that is not "qualifying income" as defined in Section 7704(d) of the U.S. Internal Revenue Code.

The Investment Partnership earned income from KKR's private equity funds during the year ended December 31, 2008, which, pursuant to the terms of those funds, was received net of carried interests of $3.4 million. The amount of carried interests paid to KKR's affiliates during the 2008 taxable year was used to offset the management fee at year end.

During the year ended December 31, 2007, the Investment Partnership earned income from KKR's private equity funds, which pursuant to the terms of those funds, was received net of carried interests of $23.5 million. Because the 2007 carried interest amount exceeded the maximum amount the management fee was able to be reduced by, the amount of carried interests used to reduce the management fee payable under the management agreement was limited to $6.4 million. Correspondingly, the profits related to the $17.1 million remainder of 2007 carried interests were not used to determine whether the managers' commissions, placement fees and other expenses incurred in connection with KPE's initial offering and related transactions were recouped.

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

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

During the years ended December 31, 2008 and December 31, 2007, management fee expense was $43.1 million and $46.6 million, respectively.

Carried Interests and Incentive Distributions

As described in Note 12, "Distributions," each investment that is made by the 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.

Recoupment through Profits of Expenses Incurred in Connections with KPE's Initial Offering and Related Transactions

Until the profits on the Investment Partnership's consolidated investments that are subject to a carried interest or incentive distribution right equal the managers' commissions, placement fees and other expenses incurred in connection with KPE's initial offering and related transactions, (i) the Associate Investor will 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 may be reduced by the amount of carried interests and incentive distributions made pursuant to the terms of the investment funds in which the Investment Partnership is invested.

As of December 31, 2008, 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 Investment Partnership's consolidated investments as follows, with amounts in thousands:

Offering costs	$	283,640
Versus creditable amounts		141,162
Remainder	$	142,478

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 December 31, 2008.

Incentive fees of $1.0 million incurred by SCF during the year ended December 31, 2007 did not reduce the management fees recorded by the Investment Partnership for such period, as determined by the Managing Partner to be in the best interests of KPE's unitholders based on legal and tax advice received from its advisors in light of KPE's classification as a partnership for U.S. federal income tax purposes. Correspondingly, the profits of SCF were not taken into account when determining whether the managers' commissions, placement fees and other expenses incurred in connection with KPE's initial offering and related transactions are recouped.

Investments in Affiliates and Unaffiliated Issuers

Investments in affiliates were $2,662.3 million and $4,690.3 million as of December 31, 2008 and December 31, 2007, 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 and opportunistic (Class A) investments and totaled $690.3 million and $1,444.3 million as of December 31, 2008 and December 31, 2007, respectively.

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Net realized gain (loss) from:		
Investments in affiliates	$ (54,527)	$ 95,638
Investments in unaffiliated issuers	(50,046)	17,794
	(104,573)	113,432
Net change in unrealized depreciation from:		
Investments in affiliates	(1,891,145)	(39,771)
Investments in unaffiliated issuers	(290,965)	(96,871)
	(2,182,110)	(136,642)
Net loss on investments and foreign currency transactions	$ (2,286,683)	$ (23,210)

Reimbursed Expenses

As of December 31, 2008, the Investment Partnership had accrued less than $0.1 million of direct reimbursable expenses related to the services agreement.

License Agreement

The Investment Partnership, the Associate Investor, the Managing Investor, KPE 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.

14. COMMITMENTS

As of December 31, 2008, the Investment Partnership had the following commitments to KKR private equity funds, with amounts in thousands:

	Capital Commitment	Unfunded Commitment
KKR 2006 Fund L.P.	$ 1,555,000	$ 449,213
KKR European Fund III, Limited Partnership	300,000	291,192
KKR Asian Fund L.P.	285,000	218,943
	$ 2,140,000	$ 959,348

Capital contributions are due on demand; however, given the size of such commitments and rates at with KKR’s funds make investments, the 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 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 Investment Partnership to investments at a given time may exceed the aggregate amount of cash that the 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 Investment Partnership is required to time investments and manage available cash in a manner that allows it to fund its capital commitments as and when capital calls are made.

As the service provider under the services agreement, KKR is primarily responsible for carrying out these activities for the 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 Investment Partnership is able to honor its commitments to funds as and when they become due. KKR will also take into account the senior secured credit facility established by the Investment Partnership. As of December 31, 2008, the Investment Partnership was over-committed; however, the Investment Partnership's sources of liquidity are believed to be sufficient to honor the Investment Partnership's commitments within a one-year time horizon.

15. FINANCIAL HIGHLIGHTS

Financial highlights for the Investment Partnership for the year ended December 31, 2008 were as follows:

	Opportunistic and Temporary Investments	Co-Investments and Negotiated Equity Investments	Private Equity Funds	Non-Private Equity Funds	Total
Total return	(17.1)%	(48.2)%	(31.0)%	(66.9)%	(47.1)%
Ratios to average net assets:					
Total expenses	10.4	0.7	0.0	4.0	2.9
Net investment income (loss)	(8.7)	(0.5)	0.6	9.8	(1.7)

Financial highlights for the Investment Partnership for the year ended December 31, 2007 were as follows:

	Opportunistic and Temporary Investments	Co-Investments and Negotiated Equity Investments	Private Equity Funds	Non-Private Equity Funds	Total
Total return	(2.0)%	(1.7)%	4.7%	5.0%	0.1%
Ratios to average net assets:					
Total expenses	6.1	0.8	0.0	3.5	2.0
Net investment income	0.6	(0.1)	0.6	7.9	0.5

Financial highlights for the Investment Partnership for the partial year ended December 31, 2006 were as follows:

	Opportunistic and Temporary Investments	Co-Investments and Negotiated Equity Investments	Private Equity Funds	Non-Private Equity Funds	Total
Total return	6.3%	0.9%	37.6%	41.5%	8.0%
Ratios to average net assets:					
Total expenses	0.4	0.0	0.0	11.8	0.4
Net investment income	4.9	0.0	0.2	(0.6)	4.2

The total return and ratios were calculated based on the weighted average net assets and have been presented on an annualized basis for the partial year ended December 31, 2006.

The Investment Partnership's turnover ratio for the years ended December 31, 2008, December 31, 2007 and the partial year ended December 31, 2006 was 9.6%, zero and zero, respectively.

16. CONTINGENCIES

As with any partnership, the 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 Investment Partnership.

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17. QUARTERLY OPERATING RESULTS (UNAUDITED)

A summary of consolidated quarterly operating results for the Investment Partnership for the years ended December 31, 2008 and ended December 31, 2007 was as follows, with amounts in thousands, except per unit and percentage amounts.

	For the Quarter Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Net investment loss	$ (19,690)	$ (17,196)	$ (13,837)	$ (13,981)
Net loss on investments and foreign currency transactions	(248,345)	(141,522)	(670,037)	(1,226,779)
Net decrease in net assets resulting from operations	(268,035)	(158,718)	(683,874)	(1,240,760)
Net assets at the end of the period	4,721,943	4,563,225	3,874,351	2,628,591
Total return (annualized)	(21.3)%	(13.5)%	(59.6)%	(127.4)%

	For the Quarter Ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Net investment income (loss)	$ 26,492	$ 24,097	$ (4,870)	$ (19,736)
Net gain (loss) on investments and foreign currency transactions	132,141	127,685	(14,881)	(268,155)
Net increase (decrease) in net assets resulting from operations	158,633	151,782	(19,751)	(287,891)
Net assets at the end of the period	5,205,032	5,354,814	5,282,869	4,994,978
Total return (annualized)	12.7%	11.7%	(1.5)%	(21.6)%

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2008 and through February 27, 2009, the Investment Partnership sold the remainder of its opportunistic investments in fixed income investments and public equities with a fair value of $41.2 million as of December 31, 2008 for proceeds of $47.4 million. In addition, the Investment Partnership settled securities sold short, not yet purchased, with a fair value of $1.9 million as of December 31, 2008 for $1.6 million.

Subsequent to December 31, 2008, the Investment Partnership distributed $5.0 million to KPE and the Associate Investor based on their ownership percentages. The distribution was used by KPE to fund working capital requirements.

Subsequent to December 31, 2008, the Investment Partnership submitted a request to redeem its entire position in SCF. Requests for redemption are currently not being fulfilled by SCF, so there is no assurance when the Investment Partnership will be receiving its redemption proceeds, if any.

Subsequent to December 31, 2008 and through February 27, 2009, global capital markets continued to experience duress as the contraction brought on by the global financial and economic crisis continued. We anticipate that worldwide economies and capital markets will remain under stress for the foreseeable future as the investment community works with governmental and regulatory bodies to implement solutions to the credit crisis and restore confidence in global financial systems. As a result, sources of liquidity may be not only more difficult, but also impossible to obtain in the current market environment. In addition, until the close of the first quarter and the completion of the first quarter valuation process, the Investment Partnership will not know the exact impact of this decline on first quarter valuations or results of operations. The state of the financial markets may also adversely impact other aspects of the business, operations, investments or prospects of the Investment Partnership in ways that are not currently foreseeable.

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KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

SUPPLEMENTAL COMBINING STATEMENT OF ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2008
(Amounts in thousands)

	Interests				
	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)**	**Combined Total**
ASSETS:					
Investments, at fair value:					
Opportunistic investments—Class A (cost of $84,852)	$ 41,181	$ —	$ —	$ —	$ 41,181
Co-investments in portfolio companies of private equity funds—Class B (cost of $2,663,611)	—	1,414,743	—	—	1,414,743
Negotiated equity investments—Class B (cost of $992,582)	—	649,155	—	—	649,155
Private equity funds—Class C (cost of $1,683,609)	—	—	1,184,958	—	1,184,958
Non-private equity fund—Class D (cost of $161,148)	—	—	—	62,583	62,583
	41,181	2,063,898	1,184,958	62,583	3,352,620
Cash and cash equivalents	623,316	—	—	—	623,316
Cash and cash equivalents held by a non-private equity fund	—	—	—	88	88
Restricted cash	18,011	—	—	—	18,011
Unrealized gain on a foreign currency exchange contract	—	3,000	—	—	3,000
Other assets	5,614	2,032	—	43	7,689
Total assets	688,122	2,068,930	1,184,958	62,714	4,004,724
LIABILITIES:					
Accrued liabilities	972	36,719	—	—	37,691
Due to affiliates	2,851	—	—	13	2,864
Securities sold, not yet purchased (proceeds of $1,785)	1,916	—	—	—	1,916
Unrealized loss on a foreign currency exchange contract and an interest rate swap, net	12,539	19,792	—	—	32,331
Other liabilities	—	—	—	117	117
Revolving credit agreement	951,214	—	—	—	951,214
Long-term debt	—	350,000	—	—	350,000
Total liabilities	969,492	406,511	—	130	1,376,133
COMMITMENTS AND CONTINGENCIES	—	—	—	—	—
NET ASSETS (LIABILITIES)	$ (281,370)	$ 1,662,419	$ 1,184,958	$ 62,584	$ 2,628,591
NET ASSETS (LIABILITIES) CONSIST OF:					
Partners' capital contributions (distributions)	$ (170,706)	$ 3,247,381	$ 1,584,892	$ 175,001	$ 4,836,568
Distributable loss	(110,664)	(1,584,962)	(399,934)	(112,417)	(2,207,977)
	$ (281,370)	$ 1,662,419	$ 1,184,958	$ 62,584	$ 2,628,591

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

SUPPLEMENTAL COMBINING STATEMENT OF ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2007
(Amounts in thousands)

	Interests				
	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)**	**Combined Total**
ASSETS:					
Investments, at fair value:					
Opportunistic investments—Class A (cost of $512,607)	$ 458,792	$ —	$ —	$ —	$ 458,792
Co-investments in portfolio companies of private equity funds—Class B (cost of $2,635,583)	—	2,653,039	—	—	2,653,039
Negotiated equity investments—Class B (cost of $992,582)	—	985,557	—	—	985,557
Private equity funds—Class C (cost of $1,813,751)	—	—	1,847,887	—	1,847,887
Non-private equity fund—Class D (cost of $195,869)	—	—	—	189,345	189,345
	458,792	3,638,596	1,847,887	189,345	6,134,620
Cash and cash equivalents	255,415	—	—	—	255,415
Cash and cash equivalents held by a non-private equity fund	—	—	—	1,091	1,091
Restricted cash	42,237	—	—	—	42,237
Other assets	5,822	2,017	—	205	8,044
Total assets	762,266	3,640,613	1,847,887	190,641	6,441,407
LIABILITIES:					
Accrued liabilities	10,373	20,357	—	—	30,730
Due to affiliates	10,767	—	—	1,194	11,961
Options written (proceeds of $7,290)	5,265	—	—	—	5,265
Unrealized loss on foreign currency exchange contracts, net	273	45,778	—	—	46,051
Other liabilities	—	—	—	182	182
Revolving credit agreement	1,002,240	—	—	—	1,002,240
Long-term debt	—	350,000	—	—	350,000
Total liabilities	1,028,918	416,135	—	1,376	1,446,429
COMMITMENTS AND CONTINGENCIES	—	—	—	—	—
NET ASSETS (LIABILITIES)	$ (266,652)	$ 3,224,478	$ 1,847,887	$ 189,265	$ 4,994,978
NET ASSETS (LIABILITIES) CONSIST OF:					
Partners' capital contributions (distributions)	$ (317,078)	$ 3,262,545	$ 1,716,100	$ 175,001	$ 4,836,568
Distributable earnings (loss)	50,426	(38,067)	131,787	14,264	158,410
	$ (266,652)	$ 3,224,478	$ 1,847,887	$ 189,265	$ 4,994,978

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Amounts in thousands)

	Interests				
	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)	Combined Total
INVESTMENT INCOME:					
Interest income, net of Class A withholding taxes of $155	$ 13,690	$ 4,827	$ 489	$ 17,244	$ 36,250
Dividend income, net of Class A and Class C withholding taxes of $363 and $31, respectively	893	—	8,142	86	9,121
Total investment income	14,583	4,827	8,631	17,330	45,371
EXPENSES:					
Management fees	40,940	—	—	2,117	43,057
Interest expense	43,369	16,363	—	2,111	61,843
Dividend expense	1,320	—	—	—	1,320
General and administrative expenses	3,070	—	—	785	3,855
Total expenses	88,699	16,363	—	5,013	110,075
NET INVESTMENT INCOME (LOSS)	(74,116)	(11,536)	8,631	12,317	(64,704)
REALIZED AND UNREALIZED LOSS FROM INVESTMENTS AND FOREIGN CURRENCY:					
Net realized gain (loss), net of Class C withholding benefit of $(37)	(88,427)	38,381	(7,571)	(46,956)	(104,573)
Net change in unrealized appreciation (depreciation)	16,453	(1,573,740)	(532,781)	(92,042)	(2,182,110)
Net loss on investments and foreign currency transactions	(71,974)	(1,535,359)	(540,352)	(138,998)	(2,286,683)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (146,090)	$ (1,546,895)	$ (531,721)	$ (126,681)	$ (2,351,387)

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Amounts in thousands)

	Interests				
	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)	Combined Total
INVESTMENT INCOME:					
Interest income	$ 76,404	$ 4,490	$ 2,654	$ 19,057	$ 102,605
Dividend income, net of Class A and Class C withholding taxes of $1,207 and $239, respectively	6,112	13,147	4,938	—	24,197
Total investment income	82,516	17,637	7,592	19,057	126,802
EXPENSES:					
Management fees	44,041	—	—	2,588	46,629
Incentive fees	—	—	—	956	956
Interest expense	26,790	20,357	—	1,410	48,557
General and administrative expenses	3,837	—	—	840	4,677
Total expenses	74,668	20,357	—	5,794	100,819
NET INVESTMENT INCOME (LOSS)	7,848	(2,720)	7,592	13,263	25,983
REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY:					
Net realized gain, net of Class C withholding taxes of $977	17,794	—	88,027	7,611	113,432
Net change in unrealized depreciation	(49,780)	(37,555)	(36,789)	(12,518)	(136,642)
Net gain (loss) on investments and foreign currency transactions	(31,986)	(37,555)	51,238	(4,907)	(23,210)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	$ (24,138)	$ (40,275)	$ 58,830	$ 8,356	$ 2,773

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

SUPPLEMENTAL COMBINING STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Amounts in thousands)

	Interests				
	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)	Combined Total
NET ASSETS—December 31, 2006	$ 3,327,986	$ 952,353	$ 701,818	$ 64,242	$ 5,046,399
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:					
Net investment income (loss)	7,848	(2,720)	7,592	13,263	25,983
Net realized gain from investments and foreign currency transactions	17,794	—	88,027	7,611	113,432
Net change in unrealized depreciation on investments and foreign currency transactions	(49,780)	(37,555)	(36,789)	(12,518)	(136,642)
Net increase (decrease) in net assets resulting from operations	(24,138)	(40,275)	58,830	8,356	2,773
Partners' capital contributions (distributions)	(3,516,306)	2,312,400	1,087,239	116,667	—
Fair value of distributions	(54,194)	—	—	—	(54,194)
INCREASE (DECREASE) IN NET ASSETS	(3,594,638)	2,272,125	1,146,069	125,023	(51,421)
NET ASSETS (LIABILITIES)— December 31, 2007	(266,652)	3,224,478	1,847,887	189,265	4,994,978
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008:					
Net investment income (loss)	(74,116)	(11,536)	8,631	12,317	(64,704)
Net realized gain (loss) from investments and foreign currency transactions	(88,427)	38,381	(7,571)	(46,956)	(104,573)
Net change in unrealized appreciation (depreciation) on investments and foreign currency transactions	16,453	(1,573,740)	(532,781)	(92,042)	(2,182,110)
Net decrease in net assets resulting from operations	(146,090)	(1,546,895)	(531,721)	(126,681)	(2,351,387)
Partners' capital contributions (distributions)	146,372	(15,164)	(131,208)	—	—
Fair value of distributions	(15,000)	—	—	—	(15,000)
DECREASE IN NET ASSETS	(14,718)	(1,562,059)	(662,929)	(126,681)	(2,366,387)
NET ASSETS (LIABILITIES)—December 31, 2008	$ (281,370)	$ 1,662,419	$ 1,184,958	$ 62,584	$ 2,628,591

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Amounts in thousands)

	Interests				
	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)	Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net decrease in net assets resulting from operations	$ (146,090)	$ (1,546,895)	$ (531,721)	$ (126,681)	$ (2,351,387)
Adjustments to reconcile net decrease in net assets resulting from operations to cash and cash equivalents provided by operating activities:					
Amortization of deferred financing costs	869	—	—	—	869
Net realized loss (gain) on investments	88,427	(38,381)	7,571	46,956	104,573
Net change in unrealized depreciation (appreciation) on investments	(28,719)	1,602,726	532,781	92,042	2,198,830
Increase (decrease) in net unrealized loss on foreign currency exchange contracts and an interest rate swap	12,266	(28,986)	—	—	(16,720)
Changes in operating assets and liabilities:					
Purchase of opportunistic investments	(124,078)	—	—	—	(124,078)
Purchase of securities to settle short sales	(244,936)	—	—	—	(244,936)
Purchase of options	(7,121)	—	—	—	(7,121)
Purchase of co-investments in portfolio companies of private equity funds	—	(28,028)	—	—	(28,028)
Purchase of investments by private equity funds	—	—	(199,211)	—	(199,211)
Purchase of investments by KKR Strategic Capital Institutional Fund, Ltd.	—	—	—	(14,249)	(14,249)
Proceeds from sale of opportunistic investments	446,484	—	—	—	446,484
Proceeds from securities sold short, not yet purchased	259,085	—	—	—	259,085
Proceeds from options written	3,529	—	—	—	3,529
Proceeds from the termination of certain transactions under forward foreign exchange contracts	—	38,381	—	—	38,381
Proceeds from sale of investments by private equity funds	—	—	321,788	—	321,788
Proceeds from sale of investments by KKR Strategic Capital Institutional Fund, Ltd	—	—	—	2,013	2,013
Decrease in cash and cash equivalents held by a non-private equity fund	—	—	—	1,003	1,003
Decrease (increase) in other assets	(661)	(15)	—	162	(514)
Decrease in restricted cash	24,226	—	—	—	24,226
Increase (decrease) in accrued liabilities	(9,401)	16,362	—	—	6,961
Decrease in due to affiliates	(7,916)	—	—	(1,181)	(9,097)
Decrease in other liabilities	—	—	—	(65)	(65)
Net cash flows provided by operating activities	$ 265,964	$ 15,164	$ 131,208	$ —	$ 412,336

Continued on the following page.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008 (CONTINUED)
(Amounts in thousands)

	Interests				
	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)	Combined Total
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings under the revolving credit agreement	549,921	—	—	—	549,921
Payments on borrowings under the revolving credit agreement	(565,324)	—	—	—	(565,324)
Partners capital contributions (distributions)	146,372	(15,164)	(131,208)	—	—
Distributions to partners	(15,000)	—	—	—	(15,000)
Net cash flows provided by (used in) financing activities	115,969	(15,164)	(131,208)	—	(30,403)
Effect of foreign exchange rate changes on cash	(14,032)	—	—	—	(14,032)
NET INCREASE IN CASH AND CASH EQUIVALENTS	367,901	—	—	—	367,901
CASH AND CASH EQUIVALENTS— Beginning of period	255,415	—	—	—	255,415
CASH AND CASH EQUIVALENTS— End of period	$ 623,316	$ —	$ —	$ —	$ 623,316
SUPPLEMENTAL CASH FLOW INFORMATION:					
Interest paid	$ 50,381	$ —	$ —	$ —	$ 50,381
NON-CASH FINANCING ACTIVITIES:					
Decrease in revolving credit agreement – foreign currency adjustments	$ (20,730)	—	—	—	$ (20,730)

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Amounts in thousands)

	Interests				
	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)**	**Combined Total**
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net increase (decrease) in net assets resulting from operations	$ (24,138)	$ (40,275)	$ 58,830	$ 8,356	$ 2,773
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to cash and cash equivalents provided by (used in) operating activities:					
Amortization of deferred financing costs	505	—	—	—	505
Net realized gain	(17,794)	—	(88,027)	(7,611)	(113,432)
Net change in unrealized depreciation (appreciation) on investments	49,507	(2,511)	36,789	12,518	96,303
Increase in net unrealized loss on foreign currency exchange contracts, net	273	40,066	—	—	40,339
Changes in operating assets and liabilities:					
Purchase of opportunistic investments	(969,179)	—	—	—	(969,179)
Purchase of options	(1,805)	—	—	—	(1,805)
Purchase of co-investments in portfolio companies of private equity funds	—	(1,685,438)	—	—	(1,685,438)
Purchase of negotiated equity investments	—	(642,582)	—	—	(642,582)
Purchase of investments by private equity funds	—	—	(1,269,765)	—	(1,269,765)
Purchase of investments by KKR Strategic Capital Institutional Fund, Ltd.	—	—	—	(130,031)	(130,031)
Proceeds from sale of opportunistic investments	633,207	—	—	—	633,207
Proceeds from options written	12,528	—	—	—	12,528
Proceeds from sale of investments by private equity funds	—	—	174,934	—	174,934
Proceeds from sale of investments by KKR Strategic Capital Institutional Fund, Ltd	—	—	—	19,245	19,245
Increase in cash and cash equivalents held by a non-private equity fund	—	—	—	(1,091)	(1,091)
Decrease in time deposit	1,000,000	—	—	—	1,000,000
Decrease (increase) in other assets	26,280	(2,017)	—	(205)	24,058
Increase in restricted cash	(42,237)	—	—	—	(42,237)
Increase in accrued liabilities	8,870	20,357	—	—	29,227
Increase in due to affiliates	6,171	—	—	68	6,239
Decrease in other liabilities	—	—	—	(17,916)	(17,916)
Net cash flows provided by (used in) operating activities	$ 682,188	$ (2,312,400)	$ (1,087,239)	$ (116,667)	$ (2,834,118)

Continued on the following page.

KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER, 2007
(Amounts in thousands)

	Interests				
	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)	Combined Total
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings under the revolving credit agreement	$ 999,266	$ —	$ —	$ —	$ 999,266
Deferred financing costs	(4,405)	—	—	—	(4,405)
Partners' capital contributions (distributions)	(3,516,306)	2,312,400	1,087,239	116,667	—
Distributions to partners	(54,194)	—	—	—	(54,194)
Net cash flows provided by (used in) financing activities	(2,575,639)	2,312,400	1,087,239	116,667	940,667
Effect of foreign exchange rate changes on cash	9,245	—	—	—	9,245
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,884,206)	—	—	—	(1,884,206)
CASH AND CASH EQUIVALENTS—Beginning of period	2,139,621	—	—	—	2,139,621
CASH AND CASH EQUIVALENTS—End of period	$ 255,415	$ —	$ —	$ —	$ 255,415
SUPPLEMENTAL CASH FLOW INFORMATION:					
Interest paid	$ 16,828	$ —	$ —	$ 1,110	$ 17,938
NON-CASH FINANCING ACTIVITIES:					
Increase in long term debt – foreign currency adjustments	$ 2,974	$ —	$ —	$ —	$ 2,974
Increase in long-term debt related to Sun financing	—	350,000	—	—	350,000

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