

# KKR Private Equity Investors, L.P.

---

## Interim Financial Report (Unaudited)

AS OF AND FOR THE QUARTER ENDED MARCH 31, 2009

---

## TABLE OF CONTENTS

	<u>Page</u>
Operating and Business Overview.....	2
Naming Conventions.....	2
Business Combination Transaction.....	2
KPE at a Glance and Key Operating Metrics .....	3
Operating Summary of KPE .....	4
Net Asset Value and Returns.....	5
Investments Held by the Investment Partnership.....	6
Ownership, Organizational and Investment Structure .....	16
Common Units .....	16
Statements of Responsibility .....	17
Notice to Investors .....	17
Cautionary Note Regarding Forward-Looking Statements and Certain Risks.....	18
Directors, Advisors and Contact Information .....	20
Financial and Liquidity Overview .....	21
Operating Results of KPE for the Quarters Ended March 31, 2009 and March 31, 2008 .....	22
Consolidated Operating Results of the Investment Partnership for the Quarters Ended March 31, 2009 and March 31, 2008.....	25
Liquidity and Capital Resources.....	30
Commitments, Obligations and Contingencies .....	32
Exposure to Market Risks .....	35
Application of Critical Accounting Policies.....	37
Recently Issued Accounting Pronouncements.....	42
Unaudited Financial Statements and Related Notes of KKR Private Equity Investors, L.P. ....	F-1
Unaudited Consolidated Financial Statements and Related Notes of KKR PEI Investments, L.P. and Subsidiaries.....	F-18

---

## OPERATING AND BUSINESS OVERVIEW

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

---

### Naming Conventions

---

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

- “we,” “us,” “our,” “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.

---

### Business Combination Transaction

---

KKR & Co. L.P. (the “Acquirer”) and the independent directors of KPE’s general partner continue their process of evaluating the advisability of the pending acquisition of all of the assets and liabilities of KPE by KKR & Co. L.P. (the “Transaction”). As of April 24, 2009, KPE and the Acquirer amended the purchase and sale agreement (“the Sale Agreement”) to extend to August 31, 2009 from April 27, 2009 the date by which the Transaction is required to be completed before either party may, subject to certain conditions, terminate the Sale Agreement.

KPE AT A GLANCE	
<b>Our Partnership</b>	<ul style="list-style-type: none"> <li>• Guernsey limited partnership</li> <li>• Listed on the Euronext Amsterdam by NYSE Euronext ("Euronext Amsterdam")</li> <li>• Trading symbol: KPE</li> <li>• Website: kkrprivateequityinvestors.com</li> <li>• 204,902,226 common units outstanding</li> <li>• Closing market price per common unit: <ul style="list-style-type: none"> <li>◦ March 31, 2009: \$2.93</li> <li>◦ May 14, 2009: \$3.45</li> </ul> </li> <li>• Makes all of its investments through the Investment Partnership (a lower tier partnership).</li> <li>• Governed by its Managing Partner's board of directors, which is required to have a majority of independent directors.</li> <li>• Subject to the supervision of Guernsey Financial Services Commission and market conduct supervision by the Authority for the Financial Markets in the Netherlands.</li> <li>• Benefits from the active involvement of KKR's senior management through certain investment, financial advisory, operational and other services provided to KPE and the Investment Partnership pursuant to a services agreement.</li> <li>• Affiliates of KKR have invested \$79.4 million in common units of KPE and into the Investment Partnership.</li> </ul>
<b>Investment Strategy</b>	<ul style="list-style-type: none"> <li>• Seeks to create long-term value by participating in private equity and other investments identified by KKR.</li> <li>• Fully invested portfolio of diversified investments in 66 companies, nine industry groups and based in 14 countries. <ul style="list-style-type: none"> <li>◦ Limited partner interests in six KKR private equity funds;</li> <li>◦ Co-investments in 13 companies alongside the private equity funds;</li> <li>◦ Negotiated equity investments in three companies; and</li> <li>◦ Investment in an opportunistic credit fund.</li> </ul> </li> </ul>
<b>About KKR</b>	<ul style="list-style-type: none"> <li>• A leading global alternative asset manager, established in 1976.</li> <li>• Sponsors and manages funds that make investments in private equity, fixed income and other assets in North America, Europe, Asia and the Middle East.</li> <li>• Completed more than 165 private equity transactions with an aggregate enterprise value of over \$424.0 billion since its inception.</li> <li>• Traditional private equity investments were valued at over \$77.1 billion on over \$44.4 billion of invested capital, a multiple in excess of 1.7 times as of March 31, 2009.</li> <li>• Offices in New York, Menlo Park, San Francisco, Houston, Washington D.C., London, Paris, Hong Kong, Tokyo, Beijing, Mumbai, Dubai and Sydney.</li> <li>• Possesses a number of strengths that differentiates it from other alternative asset managers and provides it with competitive advantages.</li> </ul>

Key Operating Metrics	
<i>(Amounts in thousands, except per unit and percentage data)</i>	
<b>KPE:</b>	<b>March 31, 2009</b>
Net asset value ("NAV") .....	\$ 2,626,087
NAV per unit .....	12.82
<b>Investment Partnership:</b>	
Cash and cash equivalents .....	\$ 638,444
Private equity fund investments, at fair value .....	1,162,992
Co-investments in portfolio companies, at fair value .....	1,220,469
Negotiated equity investments, net of related financing, at fair value .....	317,857
Non-private equity fund investment, at fair value .....	58,482
Private equity investments, net of related financing, as a percentage of total investments .....	97.9%

## Operating Summary of KPE

<i>(Amounts in thousands except percentages)</i>		<b>Quarter Ended March 31, 2009</b>
Net investment loss .....	\$	(15,593)
Net gain on investments and foreign currency transactions .....		23,011
Net increase in net assets resulting from operations .....		7,418
Total return for the quarter .....		0.3%
Total return (annualized) .....		1.2%

*(Please note that the amounts disclosed below, with the exception of the Investment Partnership's sales proceeds during the quarter, are from the perspective of KPE, or 99.79% of the amounts disclosed under "Financial and Liquidity Overview - Consolidated Operating Results of the Investment Partnership" included elsewhere in this report.)*

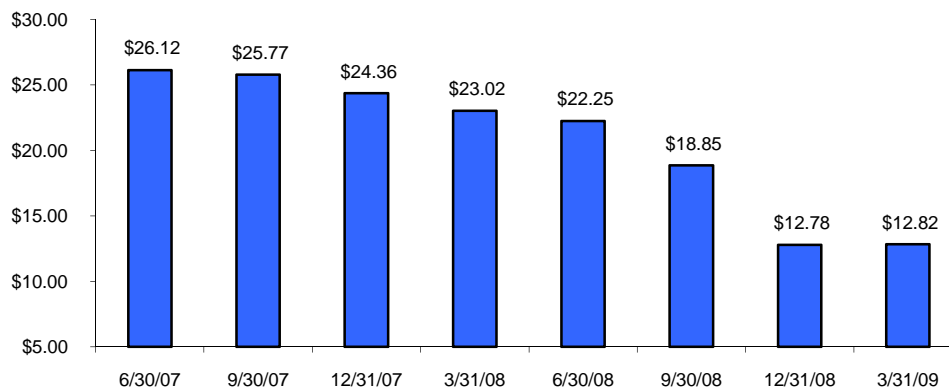
- As of March 31, 2009, KPE's NAV was relatively flat when compared to that of the prior quarter end, while the S&P 500 Index declined 11.7% over the same period.
- Each quarter end, KPE adjusts the value of its investments to fair value in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). While there were certain company investments with individually more significant adjustments, on an overall basis, the net impact to NAV from the first quarter end valuation process for the private equity portfolio was an increase of only \$4.7 million. The most significant individual company investment changes in fair value during the quarter were:

	<b>Increase (Decrease) in Fair Value (in millions)</b>
Dollar General Corporation .....	\$ 58.1
HCA Inc. ....	52.1
Sun Microsystems, Inc. ....	24.4
Energy Future Holdings .....	(73.0)
Capmark Financial Group Inc. ....	(15.2)
ProSiebenSat.1 Media AG .....	(15.2)
KION Group GmbH .....	(13.9)

- Two types of asset sales were undertaken by the Investment Partnership during the quarter ended March 31, 2009, both of which generated realized losses against original cost. Certain interests in co-investments were sold for proceeds of \$200.4 million and the remainder of the public equity and fixed income opportunistic investments were sold for proceeds of \$47.4 million. Due to the timing of the sales during the quarter and the respective fair values at that time, the sales were net accretive to KPE's NAV by \$12.8 million.
- Foreign currency transactions were executed during the quarter that generated net gains of \$5.4 million.
- Net operating expenses of \$15.6 million were incurred during the quarter.

## Net Asset Value and Returns

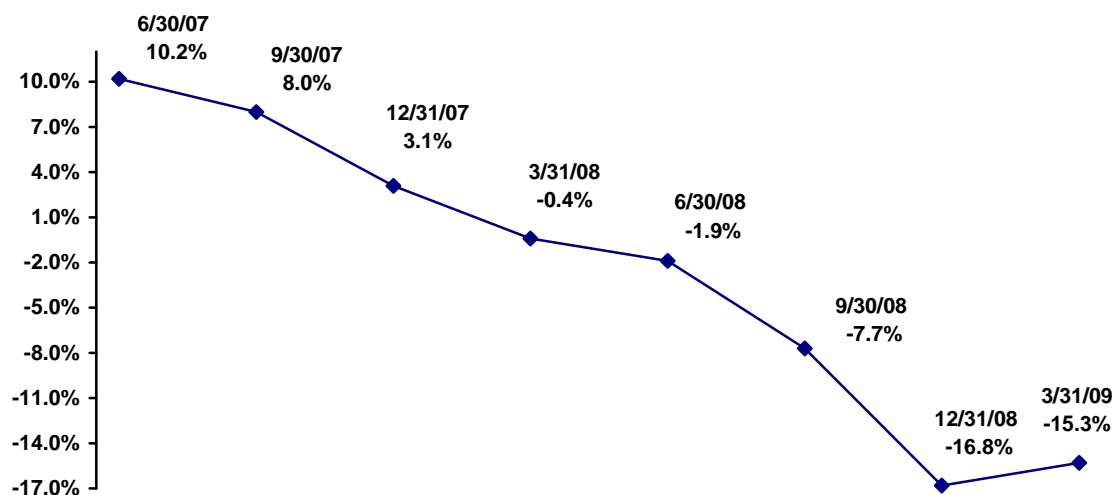
KPE's common units outstanding were 204,550,001 for all periods before March 31, 2008 and 204,902,226 as of March 31, 2008 and for all periods thereafter. KPE's NAV per unit for the current and each of the previous seven quarters was as follows (1):



- (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

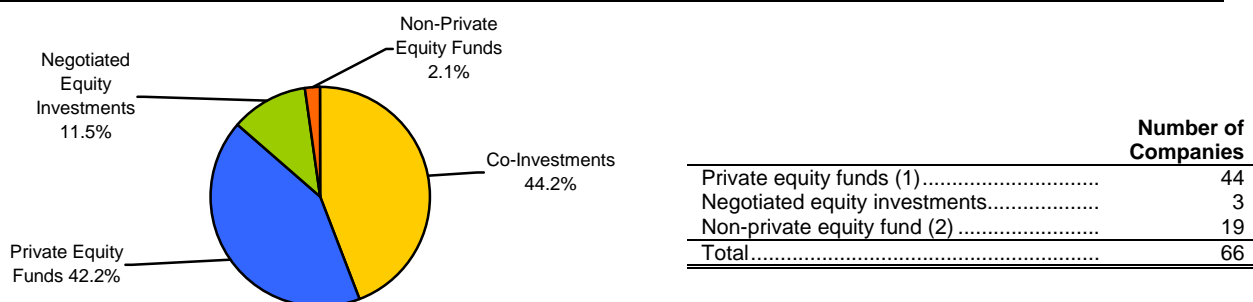
---

The Investment Partnership's net assets were comprised of the following, with amounts in thousands, as of March 31, 2009:

	<u>Net Assets</u>	<u>Percent of Total</u>
Private equity investments:		
Co-investments .....	\$ 1,220,469	46.3%
Private equity funds .....	1,162,992	44.2
Negotiated equity investments .....	<u>667,857</u>	<u>25.4</u>
	3,051,318	115.9
Temporary investments .....	638,444	24.3
Revolving credit agreement .....	(926,193)	(35.2)
Long-term debt .....	(350,000)	(13.3)
Other, net (1) .....	160,186	6.1
Non-private equity fund investment .....	<u>58,482</u>	<u>2.2</u>
Net assets .....	<u>\$ 2,632,237</u>	<u>100.0%</u>
Allocation of net assets to the general partner .....	\$ 5,645	0.2%
Allocation of net assets to KPE .....	<u>2,626,592</u>	<u>99.8</u>
	<u>\$ 2,632,237</u>	<u>100.0%</u>

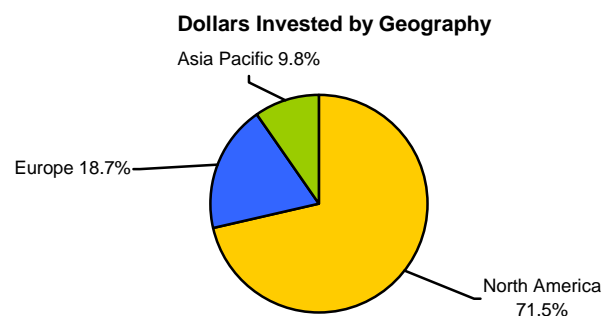
(1) Other, net included a receivable of \$200.4 million related to the sale of certain interests in co-investments, the cash proceeds of which were received in April 2009.

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 March 31, 2009:



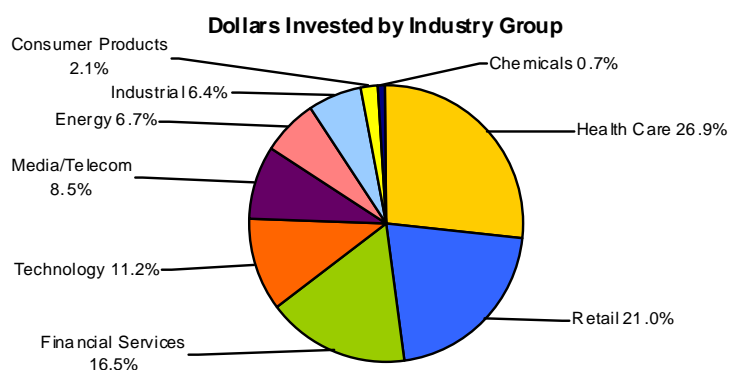
- (1) The number of portfolio companies represented within the private equity funds includes the 13 co-investments.
- (2) There are 27 total companies represented in the non-private equity fund, 19 of which are incremental to number of companies included in private equity funds and opportunistic investments.
-

Investments, net of the related financing of a negotiated equity investment, held by the Investment Partnership, excluding temporary investments, were comprised of the following by geography as of March 31, 2009:



	Number of Countries	Number of Companies
North America.....	2	40
Europe .....	6	15
Asia Pacific .....	6	11
Total.....	14	66

Investments, net of the related financing of a negotiated equity investment, held by the Investment Partnership, excluding temporary investments, were comprised of the following by industry group as of March 31, 2009:



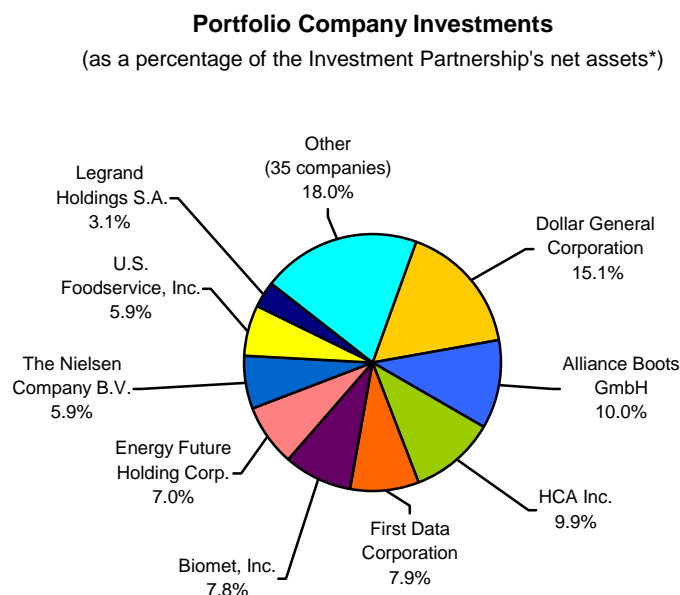
	Number of Companies
Health Care .....	5
Retail .....	7
Financial Services .....	8
Technology .....	12
Media/Telecom .....	12
Energy .....	4
Industrial .....	11
Consumer Products.....	6
Chemicals.....	1
Total .....	66



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 March 31, 2009, with amounts in thousands, except percentages:

	<u>Industry</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a Percentage of the Investment Partnership's Net Assets</u>
Dollar General Corporation.....	Retail	\$ 310,181	\$ 397,506	15.1 %
Alliance Boots GmbH.....	Health Care	443,114	264,299	10.0
HCA Inc. ....	Health Care	260,920	260,920	9.9
First Data Corporation .....	Financial Services	347,551	208,531	7.9
Biomet, Inc.....	Health Care	256,358	205,087	7.8
Energy Future Holdings Corp. ....	Energy	365,922	182,961	7.0
The Nielsen Company B.V. ....	Media	172,841	155,557	5.9
U.S. Foodservice, Inc. ....	Retail	193,633	154,906	5.9
Legrand Holdings S.A. ....	Industrial	122,405	81,233	3.1
		2,472,925	1,911,000	72.6
Other portfolio companies (1).....		1,635,419	472,461	18.0
		<u>\$ 4,108,344</u>	<u>\$ 2,383,461</u>	<u>90.6%</u>

(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 March 31, 2009.










\*The total of co-investments and private equity fund investments represented in the above chart, as a percentage of the Investment Partnership's net assets, was 90.6% as of March 31, 2009.

## 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 March 31, 2009 (amounts in thousands)	Industry	Description
	\$279,092	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.
	201,444	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.
	172,171	Health Care	An international pharmacy-led health and beauty group operating in more than 15 countries (including associates) across the world.
	141,155	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.
	121,154	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	100,000	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 March 31, 2009 (amounts in thousands)	Industry	Description
	81,155	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.
	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.
	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.
	11,395	Industrial	A leading European manufacturer of forklift trucks and related services.
	7,903	Media	Pan-European broadcasting group active in 13 European countries; Germany's largest TV broadcasting group.
	—	Financial Services	A leader in real estate finance, investments and services.
	—	Media	The leading publisher of printed and online directories in France.
<u>\$1,220,469</u>			

- (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 March 31, 2009, with amounts in thousands:

	<b>Fair Value</b>	<b>Unfunded Commitment</b>
KKR 2006 Fund L.P. ....	\$ 808,636	\$ 447,759
KKR Millennium Fund L.P. ....	128,630	—
KKR European Fund, Limited Partnership .....	124,944	—
KKR Asian Fund L.P. ....	51,267	218,943
KKR European Fund II, Limited Partnership .....	44,549	—
KKR European Fund III, Limited Partnership .....	4,966	291,192
	<u>\$ 1,162,992</u>	<u>\$ 957,894</u>

From the inception of the Investment Partnership's investment through March 31, 2009, private equity fund investments have generated the following internal rates of return ("IRR") and multiples of invested capital. The Investment Partnership's calculation during its holding period of the following IRRs and multiples of invested capital is not necessarily representative of the overall performance of each respective fund. Past performance is no guarantee of future results.

	<b>IRR (1)</b>	<b>Multiple of Invested Capital (1)</b>
KKR 2006 Fund L.P. ....	(18.8)%	0.8
KKR Millennium Fund L.P. ....	(18.0)	0.8
KKR European Fund, Limited Partnership .....	2.9	1.1
KKR Asian Fund L.P. ....	**	**
KKR European Fund II, Limited Partnership .....	(30.0)	0.6
KKR European Fund III, Limited Partnership .....	**	**

(1) IRRs and multiples of invested capital were calculated for private equity funds with an investment period that has been open for at least 30 months.

### *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.

### *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.

#### *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.

#### *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 "Financial and Liquidity Overview—Application of Critical Accounting Policies, Valuation of Limited Partner Interests and Investments." 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 March 31, 2009:

Portfolio Company	Industry	Country	KKR 2006 Fund	KKR Millennium Fund	KKR European Fund	KKR Asian Fund	KKR European Fund II	KKR European Fund III
<b>NORTH AMERICA:</b>								
Accellent Inc. ....	Health Care	United States		X				
Biomet, Inc. ....	Health Care	United States	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				
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					
Masonite International Corporation.....	Industrial	Canada		X				
The Nielsen Company B.V.....	Media	United States		X				
Sealy Corporation .....	Consumer Products	United States		X				
SunGard Data Systems, Inc. ....	Technology	United States		X				
Toys “R” Us, Inc. ....	Retail	United States		X				
U.S. Foodservice, Inc. ....	Retail	United States	X					
Visant Corporation .....	Media	United States		X				
<b>EUROPE:</b>								
Alliance Boots GmbH.....	Health Care	United Kingdom	X				X	
A.T.U. Auto-Teile-Unger Holding GmbH.....	Retail	Germany	X	X	X		X	
AVR Bedrijven N.V. ....	Industrial	Netherlands		X			X	
KION Group GmbH.....	Industrial	Germany	X				X	
Legrand Holdings S.A. ....	Industrial	France		X	X			
Maxeda B.V. ....	Retail	Netherlands		X	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			
Tarkett S.A. ....	Industrial	France	X				X	
TDC A/S.....	Telecom	Denmark		X			X	
U.N Ro-Ro Isletmeleri A.S. ....	Industrial	Turkey	X				X	
<b>ASIA PACIFIC:</b>								
Aricent Inc. ....	Technology	India		X				
Avago Technologies Limited.....	Technology	Singapore		X	X		X	
Bharti Infratel Limited .....	Telecom	India	X			X		
BIS Industries Limited .....	Industrial	Australia		X			X	
Ma Anshan Modern Farming Co. Ltd. ....	Consumer Products	China	X			X		
MMI Holdings Limited .....	Technology	Singapore	X			X		
Seven Media Group .....	Media	Australia	X				X	
Tianrui Group Cement Co., Ltd. ....	Industrial	China	X			X		
Unisteel Technology Limited.....	Technology	Singapore	X			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 March 31, 2009 (amounts in thousands)	Industry	Description
	\$525,000	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 <a href="http://sun.com">http://sun.com</a> .
	142,857	Financial Services	Orient Corporation (“Orico”) is one of the largest consumer credit companies in Japan.
	—	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.
	<u>\$667,857</u>		

(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.

## 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 March 31, 2009
Investment in Strategic Capital Holdings I, L.P., at fair value....	\$ 54,405
Special investments, at fair value.....	4,077
	<u>\$ 58,482</u>

Strategic Capital Holdings I, L.P. ("SCH") is a shared investment partnership, 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:

	<b>March 31, 2009</b>
<b>Assets:</b>	
Cash and cash equivalents .....	\$ 8,330
Restricted cash and cash equivalents .....	15,313
Securities, at fair value .....	2,139
Private equity investments, at fair value .....	368
Corporate loans, at fair value .....	14,327
Collateralized loan obligation in affiliates .....	24,093
Reverse repurchase agreements .....	3,763
Interest receivable .....	1,472
Other assets .....	514
<b>Total assets .....</b>	<b><u>70,319</u></b>
<b>Liabilities:</b>	
Interest payable .....	55
Securities sold, not yet purchased, at fair value .....	4,065
Derivative liabilities .....	4,999
Other payables .....	6,795
<b>Total liabilities .....</b>	<b><u>15,914</u></b>
<b>Net assets .....</b>	<b><u>\$ 54,405</u></b>

During the quarter ended March 31, 2009, 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.

### **Opportunistic Investments**

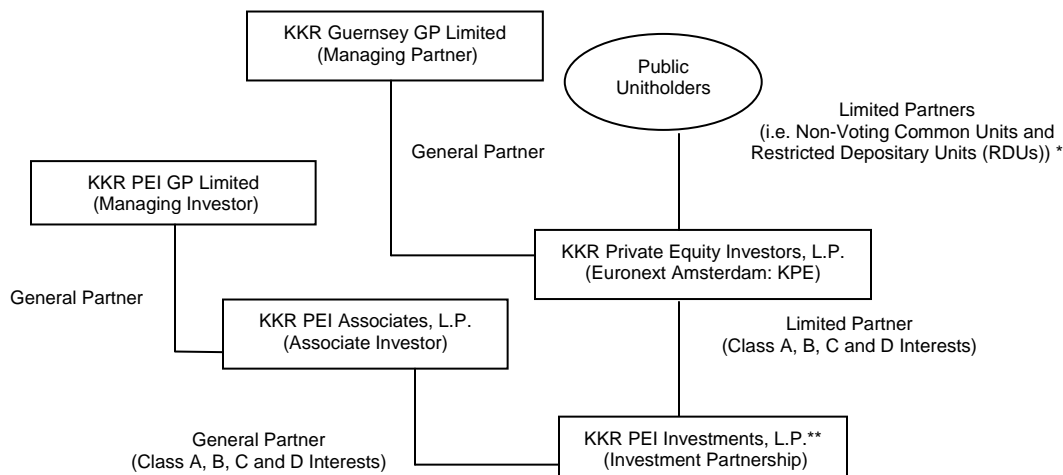
The Investment Partnership may make investments in opportunistic investments, which are any investments identified by KKR in the course of its business other than private equity or temporary investments. Opportunistic investments may include public equities, fixed income investments and derivative instruments. 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. As of March 31, 2009, the Investment Partnership did not hold any opportunistic investments.

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. As of March 31, 2009, the Investment Partnership was not party to such transactions.



## 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 Business Overview” 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 March 31, 2009, KPE had 204,902,226 common units outstanding. KPE's common units represent limited partner interests in its partnership. KPE has also established a restricted depositary facility in the U.S. to allow qualifying investors to acquire and hold our common units in the form of restricted depositary units (“RDUs”). Each RDU represents the right to receive one common unit that has been deposited with The Bank of New York, as the depositary bank, and any other securities, cash or property that the depositary bank receives in respect of the common unit.

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

	<b>Market Price per Common Unit (1)</b>
For the Year Ended December 31, 2009:	
As of March 31, 2009 .....	\$ 2.93
For the Year Ended December 31, 2008:	
As of December 31, 2008 .....	\$ 3.50
As of September 30, 2008 .....	9.40
As of June 30, 2008 .....	12.75
As of March 31, 2008 .....	12.35

(1) The market price 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 May 14, 2009, the closing market price per common unit was \$3.45.

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](http://www.kkrprivateequityinvestors.com).

---

## 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 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 and Certain Risks**

---

This report contains certain forward-looking statements and an investment in KPE involves certain risks. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will" and "would" or the negative of those terms or other comparable terminology. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, results of operations, liquidity, investments, net asset value and prospects may vary materially from those expressed in our forward-looking statements. Some of the factors that could cause actual results to vary from those expressed in our forward-looking statements and other risks and uncertainties to which KPE is subject 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 policies of KKR and its ability to value certain of our investments; 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;
- we have a limited history of declaring distributions to unitholders under our current distribution policy, and we may continue to declare no distributions in the future; therefore, a unitholder may, from time to time or indefinitely, have obligations to pay taxes based on their allocation of KPE's income without having received sufficient or any distributions from KPE; and
- the risks, uncertainties and other factors described elsewhere in this report, including, but not limited to, those identified under "Financial and Liquidity 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.

\* \* \* \* \*

---

## DIRECTORS, ADVISORS AND CONTACT INFORMATION

---

### Board of Directors of the Managing Partner:

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

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.

\*Executives at KKR

\*\*Independent directors

### Registered Office and General Inquiries:

KKR Private Equity Investors, L.P.  
P.O. Box 255  
Trafalgar Court, Les Banques  
St. Peter Port, Guernsey GY1 3QL  
Channel Islands  
Telephone: +44.1481.745.001  
Facsimile: +44.1481.745.074

Registration number: 602

[www.kkrprivateequityinvestors.com](http://www.kkrprivateequityinvestors.com)

### Service Provider:

Kohlberg Kravis Roberts & Co. L.P.  
9 West 57<sup>th</sup> Street  
New York, New York 10019  
United States

### Media Contact:

Kohlberg Kravis Roberts & Co.  
9 West 57<sup>th</sup> Street  
New York, New York 10019  
United States  
Peter McKillop  
Kristi Huller  
Telephone: +1.212.750.8300  
Email: [media@kk.com](mailto:media@kk.com)

### Investor Relations:

KKR KPE LLC  
9 West 57<sup>th</sup> Street, Suite 1640  
New York, New York 10019  
United States  
Kate de Mul  
*Investor Relations Manager*  
Telephone: +1.212.659.2026  
Facsimile: +1.212.659.2049

### Board of Directors of the Managing Investor:

Perry Golkin\*  
Scott C. Nuttall\*  
William J. Janetschek\*

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.

### Guernsey Administrator:

Northern Trust International Fund Administration  
Services (Guernsey) Limited  
P.O. Box 255  
Trafalgar Court, Les Banques  
St. Peter Port, Guernsey GY1 3QL  
Channel Islands  
Telephone: +44.1481.745.001  
Facsimile: +44.1481.745.074

### Independent Auditors:

Deloitte LLP  
Regency Court  
Gategny Esplanade  
St. Peter Port, Guernsey GY1 3HW  
Channel Islands  
Telephone: + 44.148.172.4011  
Facsimile: + 44.148.171.1544

### Paying Agent:

ING Bank N.V.  
Van Heenvlietlaan 220  
1083 CN Amsterdam  
The Netherlands  
Telephone: +31.20.7979.418  
Facsimile: +31.20.7979.607

### Depository Bank:

The Bank of New York  
101 Barclay Street, 22 West  
New York, New York 10286  
United States  
Attention: KKR Private Equity Investors  
Telephone: +1.212.815.4502 or +1.212.815.2715  
Facsimile: +1.212.571.3050

## FINANCIAL AND LIQUIDITY 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. Interim results may not be indicative of our results for a full fiscal year. The financial results presented herein include activity for the quarters ended March 31, 2009 and March 31, 2008.

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

---

### Business Environment

Although certain segments of the global capital market have improved since December 31, 2008, worldwide economies and other segments of the global capital market remain weak and, in general, credit remains scarce and confidence in global financial systems and economic performance has not been fully restored. As a result, sources of liquidity may be more difficult to obtain in the current market environment. 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 currently unforeseeable.

---

### 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 or loss 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, typically comparable company analysis and discounted cash flow analysis, and records an amount that is within a range suggested by the methodologies. Each methodology incorporates various assumptions, and the outcome derived from one methodology may offset the outcome of another methodology such that no change in valuation may result from period to period. 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 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, as described above. 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 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, other administrative costs and our allocated share of the total management fee that is payable under the services agreement, if any.

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 fees and expenses associated with the Investment Partnership's long-term debt and credit agreement, the Investment Partnership's allocated share of the management fees that are payable under the services agreement, the expenses of KKR that are directly attributable to the operations of the Investment Partnership and reimbursable under the services agreement, professional fees, other administrative costs and incentive fees incurred by SCF, if any.

---

## Operating Results of KPE

---

The following table sets forth KPE's unaudited operating results for the quarters ended March 31, 2009 and March 31, 2008, with amounts in thousands:

	Quarter Ended	
	March 31, 2009	March 31, 2008
Net investment loss allocated from the Investment Partnership:		
Investment income .....	\$ 3,788	\$ 15,241
Expenses.....	<u>18,187</u>	<u>34,915</u>
	(14,399)	(19,674)
Investment income—interest income .....	7	26
Expenses—General and administrative expenses.....	<u>1,201</u>	<u>1,446</u>
Net investment loss.....	<u>(15,593)</u>	<u>(21,094)</u>
Realized and unrealized gain (loss) from investments and foreign currency allocated from the Investment Partnership:		
Net realized gain (loss) .....	(93,899)	3,990
Net change in unrealized appreciation (depreciation).....	<u>116,910</u>	<u>(251,819)</u>
Net gain (loss) on investments and foreign currency transactions .....	<u>23,011</u>	<u>(247,829)</u>
Net increase (decrease) in net assets resulting from operations.....	\$ <u>7,418</u>	\$ <u>(268,923)</u>

## ***Operating Results of KPE for the Quarters Ended March 31, 2009 and March 31, 2008***

### ***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, interest expense, dividend expense and general and administrative expenses. During the quarters ended March 31, 2009 and March 31, 2008, the net investment loss allocated from the Investment Partnership was \$14.4 million and \$19.7 million, respectively. See "Consolidated Operating Results of the Investment Partnership" below.

### ***Investment Income***

During the quarters ended March 31, 2009 and March 31, 2008, investment income of less than \$0.1 million represented interest income from cash management activities.

### ***General and Administrative Expenses***

General and administrative expenses during the quarters ended March 31, 2009 and March 31, 2008 were \$1.2 million and \$1.4 million, respectively, which included administrative costs, fees for professional services and fees and expenses of our Managing Partner's board of directors.

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

During the quarter ended March 31, 2009, we recorded a net realized loss of \$93.9 million compared to a net realized gain of \$4.0 million recorded during the quarter ended March 31, 2008. Additionally, we recorded a net change in unrealized appreciation of \$116.9 million compared to net unrealized depreciation of \$251.8 million during the quarters ended March 31, 2009 and March 31, 2008, respectively. The net realized gain (loss) and net change in unrealized appreciation (depreciation) were based on KPE's allocated portion of the Investment Partnership's net gain (loss) on investments and foreign currency transactions. See "Consolidated Operating Results of the Investment Partnership" below.

### ***Net Increase (Decrease) in Net Assets Resulting from Operations***

During the quarter ended March 31, 2009, the net increase in net assets resulting from operations was \$7.4 million compared to a net decrease in net assets resulting from operations of \$268.9 million during the quarter ended March 31, 2008. KPE's total return for the quarters ended March 31, 2009 and March 31, 2008 was 0.3% and (5.3)%, respectively, and 1.2% and (21.4)%, respectively, on an annualized basis.



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

During the quarters ended March 31, 2009 and March 31, 2008, the change in net assets allocated from the Investment Partnership to KPE was as follows, with amounts in thousands:

	<b>Quarter Ended</b>	
	<b>March 31, 2009</b>	<b>March 31, 2008</b>
Net increase (decrease) in net assets resulting from operations of the Investment Partnership .....	\$ 8,646	\$ (268,035)
Management fees incurred by the Investment Partnership (100% allocated to the limited partner) .....	<u>8,232</u>	<u>13,407</u>
Net increase (decrease) in net assets resulting from operations before management fees incurred by the Investment Partnership .....	16,878	(254,628)
Limited partner interest percentage (rounded) .....	<u>99.8%</u>	<u>99.8%</u>
Management fees incurred by the Investment Partnership and allocated to the limited partner .....	<u>8,232</u>	<u>13,407</u>
Net increase (decrease) in net assets resulting from operations of the Investment Partnership allocated to KPE .....	<u>\$ 8,612</u>	<u>\$ (267,503)</u>
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 loss .....	\$ (14,399)	\$ (19,674)
Net gain (loss) on investments and foreign currency transactions .....	<u>23,011</u>	<u>(247,829)</u>
	<u>\$ 8,612</u>	<u>\$ (267,503)</u>

## Consolidated Operating Results of the Investment Partnership

The following table sets forth the unaudited consolidated operating results of the Investment Partnership for the quarters ended March 31, 2009 and March 31, 2008, with amounts in thousands:

	Quarter Ended	
	March 31, 2009	March 31, 2008
Investment income:		
Interest income.....	\$ 3,796	\$ 11,901
Dividend income, net of withholding taxes of \$0 and \$71, respectively.....	—	3,371
Total investment income.....	3,796	15,272
Expenses:		
Management fees.....	8,232	13,407
Interest expense.....	9,444	19,640
Dividend expense.....	—	574
General and administrative expenses .....	532	1,341
Total expenses .....	18,208	34,962
Net investment loss .....	(14,412)	(19,690)
Realized and unrealized gain (loss) from investments and foreign currency:		
Net realized gain (loss).....	(94,095)	3,998
Net change in unrealized appreciation (depreciation).....	117,153	(252,343)
Net gain (loss) on investments and foreign currency transactions .....	23,058	(248,345)
Net increase (decrease) in net assets resulting from operations .....	\$ 8,646	\$ (268,035)

### Operating Results of the Investment Partnership for the Quarters Ended March 31, 2009 and March 31, 2008

#### Interest Income

During the quarters ended March 31, 2009 and March 31, 2008, interest income was \$3.8 million and \$11.9 million, respectively, which primarily represented interest on cash management activities. Interest was earned at an annualized weighted average rate of 0.9% and 3.1% during the quarters ended March 31, 2009 and March 31, 2008, respectively.

#### Dividend Income

During the quarter ended March 31, 2008, dividend income was \$3.4 million, which represented dividends received from investments in public equities and from certain KKR portfolio companies. The Investment Partnership did not receive dividend income during the quarter ended March 31, 2009.

#### Management Fees

During the quarters ended March 31, 2009 and March 31, 2008, management fees were \$8.2 million and \$13.4 million, respectively.

#### Interest Expense

During the quarters ended March 31, 2009 and March 31, 2008, interest expense of \$9.4 million and \$19.6 million, respectively, was incurred related primarily to the revolving credit facility and long-term debt financing of the investment in Sun Microsystems, Inc. ("Sun"). The decrease from the prior year was due primarily to a lower weighted average interest

rate, primarily related to borrowings outstanding under the revolving credit facility during the quarter ended March 31, 2009 compared to the quarter ended March 31, 2008.

#### *Dividend Expense*

During the quarter ended March 31, 2008, dividend expense was \$0.6 million related to securities sold short. The Investment Partnership did not pay any dividends during the quarter ended March 31, 2009.

#### *General and Administrative Expenses*

During the quarters ended March 31, 2009 and March 31, 2009, general and administrative expenses were \$0.5 million and \$1.3 million, respectively, which were comprised primarily of fees for professional services.

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

During the quarter ended March 31, 2009, the Investment Partnership recorded a net realized loss of \$94.1 million, which was primarily comprised of \$39.9 million related to the sale of certain interests in co-investments, \$37.2 million from the sale of the remaining opportunistic investments in public equities, related derivative instruments and a fixed income investment and \$28.1 million from the sale of investments by SCF, offset by realized gains of \$11.1 million related foreign currency transactions. The \$39.9 million net realized loss from the sale of certain interests in co-investments was comprised of the following, with amounts in thousands:

	<u>Original Cost of Investment</u>	<u>Sale Proceeds</u>	<u>Realized Gain (Loss)</u>
Biomet, Inc. ....	\$ 48,557	\$ 40,080	\$ (8,477)
Dollar General Corporation .....	35,314	40,080	4,766
First Data Corporation.....	64,742	40,080	(24,662)
HCA Inc. ....	48,556	40,080	(8,476)
The Nielsen Company B.V. ....	43,161	40,080	(3,081)
	<u>\$ 240,330</u>	<u>\$ 200,400</u>	<u>\$ (39,930)</u>

During the quarter ended March 31, 2008, the Investment Partnership recorded a net realized gain of \$4.0 million, which was comprised of \$10.3 million from the sale of Demag Holdings S.à r.l. by the KKR European Fund and \$0.2 million from the sale of investments by SCF, offset by a realized loss of \$6.5 million from the sale of opportunistic investments in public equities and derivative instruments.

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

During the quarters ended March 31, 2009 and March 31, 2008, the net change in unrealized appreciation (depreciation) on investments and foreign currency transactions was as follows, with amounts in thousands:

	<u>Quarter Ended March 31, 2009</u>	<u>Quarter Ended March 31, 2008</u>
Opportunistic investments .....	\$ 43,802	\$ (6,233)
Temporary investments:		
Interest rate swap .....	1,865	(11,391)
Foreign currency adjustments .....	(2,028)	3,259
	<u>(163)</u>	<u>(8,132)</u>
Co-investments:		
HCA Inc. ....	50,000	—
Dollar General Corporation .....	39,406	—
First Data Corporation .....	25,897	—
Biomet, Inc. ....	9,711	—
The Nielsen Company B.V. ....	4,316	20,000
Energy Future Holdings Corp. ....	(40,000)	—
ProSiebenSat.1 Media AG .....	(14,256)	13,035
Capmark Financial Group Inc. ....	(13,500)	(13,500)
KION Group GmbH .....	(12,566)	10,258
Alliance Boots GmbH .....	(2,952)	(180)
NXP B.V. ....	—	17,555
PagesJaunes Groupe S.A. ....	—	(108,584)
Forward foreign currency exchange contracts .....	(414)	(43,593)
	<u>45,642</u>	<u>(105,009)</u>
Negotiated equity investments:		
Sun Microsystems, Inc. ....	24,500	(45,150)
Orient Corporation .....	3,720	(35,809)
Aero Technical Support & Services S.à r.l. (Aveos) .....	—	(3,113)
	<u>28,220</u>	<u>(84,072)</u>
Investments in private equity funds:		
KKR Asian Fund .....	2,008	5,715
KKR 2006 Fund .....	(14,051)	11,243
KKR European Fund II .....	(4,483)	(1,702)
KKR Millennium Fund .....	(3,454)	(14,064)
KKR European Fund .....	(3,354)	(25,960)
KKR European Fund III .....	(86)	—
	<u>(23,420)</u>	<u>(24,768)</u>
Investments in a non-private equity fund .....	<u>23,072</u>	<u>(24,129)</u>
	<u>\$ 117,153</u>	<u>\$ (252,343)</u>

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

During the quarter ended March 31, 2009, the net unrealized appreciation in opportunistic investments of \$43.8 million was due to an accounting entry to reverse previously recorded net unrealized depreciation due to the sale of all remaining opportunistic investments that were held as of December 31, 2008. 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.

The investment in Dollar General Corporation (“Dollar General”) was marked from 1.1 times cost as of December 31, 2008 to 1.3 times cost as of March 31, 2009. The net increase of \$58.2 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 March 31, 2009 was primarily due to positive performance in terms of revenue and EBITDA growth driven by same-store sales growth and traction on key operating initiatives, amidst a rise in comparable company valuations due to increasing interest in value retailers given the current macroeconomic environment.

The investment in HCA Inc. (“HCA”) was marked from 0.8 times cost as of December 31, 2008 to original cost as of March 31, 2009. The increase of \$52.2 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 March 31, 2009 was primarily due to continued top-line growth and solid performance driven by overhead expense management, as well as slight increases in the trading valuations of comparable companies.

The investment in Energy Future Holdings Corp. (“EFH”) was marked from 0.7 times cost as of December 31, 2008 to 0.5 times cost as of March 31, 2009. The decrease of \$73.2 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 March 31, 2009 was primarily due to a decrease in the long-term outlook for power prices in Texas, driven in part by a reduction in natural gas prices along with lower expected demand for power as a result of new generation additions and slower economic growth. In addition, the trading multiples of comparable companies have declined.

The investment in ProSiebenSat.1 Media AG (“ProSieben”) was marked on both a Euro and U.S. dollar basis from 0.1 times cost as of December 31, 2008 to less than 0.1 times cost as of March 31, 2009. The decrease of \$15.2 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 March 31, 2009 was primarily due to continued declines in the German domestic and international advertising markets caused by the current financial and economic crisis, as well as due to the continued multiple compression across the European free-to-air broadcasting sector.

The investment in Capmark Financial Group Inc. (“Capmark”) was marked from 0.1 times cost as of December 31, 2008 to nil as of March 31, 2009. The decrease of \$15.2 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 March 31, 2009 was primarily due to constraints in Capmark’s liquidity and resultant pressure on the company’s ability to maintain compliance with the leverage ratio covenant in its senior credit facilities, caused by 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.

The investment in KION Group GmbH (“KION”) was marked on both a Euro and U.S. dollar basis from 0.2 times cost as of December 31, 2008 to 0.1 times cost as of March 31, 2009. The decrease of \$13.9 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 March 31, 2009 was primarily due to continued pressure on the company’s mid-term outlook as a result of the deteriorated macroeconomic environment and resultant global industrial slowdown.

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 fair 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.

In addition to the reversal related to the sale of opportunistic investments discussed above, during the quarter ended March 31, 2009, the Investment Partnership also recorded an accounting entry of \$44.1 million to reverse previously recorded net unrealized depreciation primarily related to the sale of certain interests in co-investments. During the quarter ended March 31, 2009, the \$44.1 million reversal of unrealized depreciation (appreciation) was comprised of the following, with amounts in thousands:

	<b>Reversal of Unrealized Depreciation (Appreciation)</b>
HCA Inc. ....	\$ 9,711
Dollar General Corporation .....	(3,531)
First Data Corporation .....	25,897
Biomet, Inc. ....	9,711
The Nielsen Company B.V. ....	4,316
Forward foreign currency exchange contracts .....	(2,000)
	<u>\$ 44,104</u>

During the quarter ended March 31, 2008, the net change in unrealized depreciation related to opportunistic and temporary investments was primarily the result of mark-to-market adjustments in public equities and the change in value of an interest rate swap contract held in connection with the revolving credit facility, respectively. 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 certain portfolio companies underlying the investments, specifically a decrease in value of PagesJaunes, which is held through a leveraged holding company and the value of which is based on a market quotation. The net unrealized depreciation in the value of negotiated equity investments was due primarily to the decrease in the fair values of Sun and Orient Corporation, 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 March 31, 2008, the Investment Partnership recorded an accounting entry to reverse previously recorded net unrealized appreciation of \$3.1 million related to the sales of investments.

*Net Increase (Decrease) in Net Assets Resulting from Operations*

During the quarter ended March 31, 2009, the net increase in net assets resulting from operations was \$8.6 million compared to a net decrease of \$268.0 million during the quarter ended March 31, 2008. The Investment Partnership's total return, based on weighted average net assets, for the quarters ended March 31, 2009 and March 31, 2008 was 0.3% and (5.3)%, respectively. The Investment Partnership's returns by investment type were as follows:

	<b>Quarter Ended</b>	
	<b>March 31, 2009</b>	<b>March 31, 2008</b>
Opportunistic investments .....	17.5 %	(3.3)%
Temporary investments .....	(1.4)	(8.2)
Co-investments.....	0.9	(4.0)
Negotiated equity investments.....	10.9	(14.1)
Private equity funds .....	(2.0)	(0.6)
Non-private equity fund.....	(6.5)	(10.2)

On an annualized basis, the Investment Partnership's total return, based on weighted average net assets, for the quarters ended March 31, 2009 and March 31, 2008 was 1.3% and (21.3)%, respectively.

---

## Liquidity and Capital Resources

---

### *Our Cash Flows for the Quarters Ended March 31, 2009 and March 31, 2008*

As of March 31, 2009 and March 31, 2008, KPE's cash balance was \$4.0 million and \$7.5 million, respectively. During the quarter ended March 31, 2009, cash provided by operating activities was \$2.0 million. KPE received a \$5.0 million distribution from the Investment Partnership during the quarter ended March 31, 2009, which was partially offset by working capital requirements.

During the quarter ended March 31, 2008, cash provided by operating activities was \$2.7 million. KPE received distributions from the Investment Partnership totaling \$5.0 million, which were partially offset by working capital requirements. Cash provided by financing activities during the quarter ended March 31, 2008 was \$4.4 million as a result of a contribution from affiliates of KKR in exchange for 352,225 newly issued common units pursuant to the investment agreement.

### *Our Sources of Cash and Liquidity Needs*

Our primary uses of cash are to make capital contributions to the Investment Partnership for use in investing activities, 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 proceeds from the sale of investments, returns, if any, generated by the private equity investments that it makes and proceeds received from financing transactions. 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 may 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 March 31, 2009, 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 one year. Accordingly, we continue to adopt the going concern basis in preparing KPE’s financial statements.

#### *The Investment Partnership’s Net Cash Flows for the Years Quarters Ended March 31, 2009 and March 31, 2008*

As of March 31, 2009 and March 31, 2008, the Investment Partnership’s cash balance was \$638.4 million and \$323.8 million, respectively. During the quarter ended March 31, 2009, cash provided by operating activities was \$43.6 million due primarily to \$47.5 million of proceeds received from the sale of opportunistic investments, offset partially by working capital requirements. Cash flows used in financing activities during the quarter ended March 31, 2009 were \$27.2 million, which was comprised of the payment of borrowings under the Investment Partnership’s revolving credit agreement and a distribution to the Investment Partnership’s general and limited partners.

During the quarter ended March 31, 2008, cash provided by operating activities was \$73.4 million due primarily to the sale of private equity and opportunistic investments totaling \$393.3 million, offset by a \$272.8 million purchase of opportunistic investments and the purchase of investments by private equity funds. Cash flows used in financing activities during the quarter ended March 31, 2009 were \$5.0 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 (“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 March 31, 2009, the Investment Partnership had \$926.2 million of borrowings outstanding, which included \$941.9 million of borrowings and a \$15.7 million foreign currency adjustment related to an unrealized gain for borrowings denominated in British pounds sterling. As of March 31, 2009, the Investment Partnership’s availability for further borrowings under the Credit Agreement was \$73.8 million, although we expect that only \$28.2 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 Note 7, “Revolving Credit Agreement and Long-Term Debt – Revolving Credit Agreement” of the Investment Partnership’s unaudited consolidated financial statement included elsewhere within this report.

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 or other illiquid investments, if any, but may generate returns that are generally lower than private equity investments. In addition, private equity or other illiquid investments, if any, or other investments 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 proceeds 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 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 and based on our expectation that the unfunded capital commitments presented below will be called over a period of several years, the Associate Investor has a reasonable expectation that the Investment Partnership has adequate sources of liquidity to continue to conduct business for at least one 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 March 31, 2009, the Investment Partnership had the following commitments to KKR private equity funds, with amounts in thousands:

	<u>Capital Commitment</u>	<u>Unfunded Commitment</u>
KKR 2006 Fund L.P. ....	\$ 1,555,000	\$ 447,759
KKR European Fund III, Limited Partnership .....	300,000	291,192
KKR Asian Fund L.P. ....	285,000	218,943
	<u>\$ 2,140,000</u>	<u>\$ 957,894</u>

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 generally expects to follow 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 Credit Agreement of the Investment Partnership and its other obligations. As of March 31, 2009, 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.

The Credit Agreement will expire in June 2012, unless earlier terminated upon an event of default. The Investment Partnership will be required to repay all outstanding borrowings under the Credit Agreement at that time if the Investment Partnership is unable to refinance the Credit Agreement prior to its expiration or termination. Borrowings under the Credit Agreement may be used for general business purposes of the 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:

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Borrowings outstanding .....	\$ 941,921	\$ 968,970
Foreign currency adjustments - unrealized gains related to borrowings denominated in:		
British pounds sterling .....	(15,728)	(14,058)
Canadian dollars .....	—	(3,698)
	<u>\$ 926,193</u>	<u>\$ 951,214</u>

As of March 31, 2009, the Investment Partnership had \$73.8 million available for future borrowings under the Credit Agreement, although we expect that only \$28.2 million will be funded in light of the bankruptcy of Lehman, which had an initial aggregate commitment of \$75.0 million.

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.

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 March 31, 2009, 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:

	Total	Payments Due by Period			
		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Revolving credit agreement.....	\$ 926,193	\$ —	\$ —	\$ 926,193	\$ —
Long-term debt .....	350,000	—	175,000	175,000	—
Total.....	<u>\$ 1,276,193</u>	<u>\$ —</u>	<u>\$ 175,000</u>	<u>\$ 1,101,193</u>	<u>\$ —</u>

#### *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 \$10.7 million as of March 31, 2009. As of March 31, 2009, the Investment Partnership had posted \$10.9 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 had recorded a net unrealized loss on foreign currency exchange contracts in the amount of \$7.7 million as of March 31, 2009.

#### *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 12, "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 12, "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*

The Investment Partnership and the investment funds in which it invests may hold investments in public equities, derivatives and securities linked to public equities. 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. 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 March 31, 2009 was \$95.7 million.

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*

Although certain segments of the global capital market have improved since December 31, 2008, worldwide economies and other segments of the global capital market remain weak and, in general, credit remains scarce and confidence in global financial systems and economic performance has not been fully restored. Over 95% of the Investment Partnership's portfolio is invested in KKR private equity funds and other private equity investments, with no direct exposure to residential real estate, residential mortgage-backed securities or residential sub-prime mortgages. 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 unaudited financial statements of KPE and Note 2 to the unaudited consolidated financial statements of the Investment Partnership. The following accounting estimates and related policies are considered critical to the preparation of KPE's unaudited financial statements and the unaudited 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*

KPE and the Investment Partnership adopted Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements*, 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** – An unadjusted quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available. As required by SFAS No. 157, the Investment Partnership will 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** – Inputs are other than unadjusted quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. As of March 31, 2009, 21.5% of the Investment Partnership's investments, compared to total investments, were valued as Level II investments.

**Level III** – Inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. As of March 31, 2009, 78.5% of the Investment Partnership's investments, compared to total investments, were valued as Level III investments.

### *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

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

	<b>Valuation Methodology when Determining Fair Value in Good Faith</b>
<b>Level II:</b>	
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	<p>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:</p> <ul style="list-style-type: none"> <li>• terms and conditions of the investment;</li> <li>• discount for lack of marketability;</li> <li>• borrowing costs;</li> <li>• time to maturity of the investment; and</li> <li>• volatility of the reference asset for which a market quotation is readily available.</li> </ul>
<b>Level III:</b>	
KPE's limited partner interests in the Investment Partnership	<p>The value is based on an amount equal to the amount of net proceeds from an orderly disposition of investments held by the Investment Partnership 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.</p>
Limited partner interests in KKR's private equity funds held by the Investment Partnership and investments by a non-private equity fund	<p>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.</p> <p>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.</p>
Investments in companies for which a market quotation is not readily available	<p>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:</p> <ul style="list-style-type: none"> <li>• the company's historical and projected financial data;</li> <li>• valuations given to comparable companies;</li> <li>• the size and scope of the company's operations;</li> <li>• expectations relating to the market's receptivity to an offering of the company's securities;</li> <li>• any control associated with interests in the company that are held by KKR and its affiliates including the Investment Partnership;</li> <li>• 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);</li> <li>• applicable restrictions on transfer;</li> <li>• industry information and assumptions;</li> <li>• general economic and market conditions; and</li> <li>• other factors deemed relevant.</li> </ul>

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.

#### *KPE's Level I, II and III Category Investments*

As of March 31, 2009 and December 31, 2008, KPE's investments in limited partner interests in the Investment Partnership were valued at \$2,626.6 million and \$2,623.0 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:

	March 31, 2009		December 31, 2008	
	Fair Value	Percentage of the Investment Partnership's Investments	Fair Value	Percentage of the Investment Partnership's Investments
Level I (a) .....	\$ —	—%	\$ (844)	(0.0)%
Level II .....	667,857	21.5	689,264	20.6
Level III .....	2,441,943	78.5	2,662,284	79.4
	<u>\$ 3,109,800</u>	<u>100.0%</u>	<u>\$ 3,350,704</u>	<u>100.0%</u>

(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.

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 or loss 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, typically comparable company analysis and discounted cash flow analysis, and records an amount that is within a range suggested by the methodologies. Each methodology incorporates various assumptions, and the outcome derived from one methodology may offset the outcome of another methodology such that no change in valuation may result from period to period. 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.

## 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. 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.

Our investment policies 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**

---

#### *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.

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly*. FSP No. 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased. FSP No. 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP No. 157-4 is effective for interim and annual periods ending after June 15, 2009 and shall be applied prospectively. KPE and the Investment Partnership are currently evaluating the impact of adopting FSP No. 157-4 on their respective 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. SFAS No. 159 was 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.

### *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. KPE and the Investment Partnership adopted SFAS No. 161 on January 1, 2009. SFAS No. 161 did not have a material impact on our financial statements or the consolidated financial statements of the Investment Partnership. As of March 31, 2009, KPE and the Investment Partnership were not party to strategic hedging transactions involving derivative instruments.

### *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.

\* \* \* \* \*

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

---

### INDEX TO UNAUDITED FINANCIAL STATEMENTS

	<u>Page</u>
Unaudited Statements of Assets and Liabilities as of March 31, 2009 and December 31, 2008 .....	F-2
Unaudited Statements of Operations for the Quarters Ended March 31, 2009 and March 31, 2008 .....	F-3
Unaudited Statements of Changes in Net Assets for the Year Ended December 31, 2008 and the Quarter Ended March 31, 2009 .....	F-4
Unaudited Statements of Cash Flows for the Quarters Ended March 31, 2009 and March 31, 2008 .....	F-5
Notes to the Unaudited Financial Statements .....	F-6

---

**KKR PRIVATE EQUITY INVESTORS, L.P.**  
**STATEMENTS OF ASSETS AND LIABILITIES (UNAUDITED)**  
(Amounts in thousands, except unit and per unit amounts)

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
ASSETS:		
Investments in limited partner interests of KKR PEI Investments, L.P., at fair value .....	\$ 2,626,592	\$ 2,622,970
Cash and cash equivalents.....	4,048	2,095
Other assets .....	<u>71</u>	<u>171</u>
Total assets.....	<u>2,630,711</u>	<u>2,625,236</u>
LIABILITIES:		
Accrued liabilities .....	4,302	4,927
Due to affiliate.....	<u>322</u>	<u>1,640</u>
Total liabilities.....	<u>4,624</u>	<u>6,567</u>
COMMITMENTS AND CONTINGENCIES	<u>—</u>	<u>—</u>
NET ASSETS .....	<u>\$ 2,626,087</u>	<u>\$ 2,618,669</u>
NET ASSETS CONSIST OF:		
Partners' capital contributions, net (common units outstanding of 204,902,226).....	\$ 4,834,517	\$ 4,834,517
Distributable loss .....	<u>(2,208,430)</u>	<u>(2,215,848 )</u>
	<u>\$ 2,626,087</u>	<u>\$ 2,618,669</u>
Net asset value per common unit .....	<u>\$ 12.82</u>	<u>\$ 12.78</u>
Market price per common unit .....	<u>\$ 2.93</u>	<u>\$ 3.50</u>

See accompanying notes to the unaudited financial statements.

# KKR PRIVATE EQUITY INVESTORS, L.P.

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

	Quarter Ended	
	March 31, 2009	March 31, 2008
NET INVESTMENT LOSS ALLOCATED FROM KKR PEI INVESTMENTS, L.P.:		
Investment income.....	\$ 3,788	\$ 15,241
Expenses .....	<u>18,187</u>	<u>34,915</u>
	(14,399)	(19,674)
INVESTMENT INCOME—Interest income .....	7	26
EXPENSES—General and administrative expenses.....	<u>1,201</u>	<u>1,446</u>
NET INVESTMENT LOSS.....	<u>(15,593)</u>	<u>(21,094)</u>
REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY ALLOCATED FROM KKR PEI INVESTMENTS, L.P.:		
Net realized gain (loss) .....	(93,899)	3,990
Net change in unrealized appreciation (depreciation) .....	<u>116,910</u>	<u>(251,819)</u>
Net gain (loss) on investments and foreign currency transactions.....	<u>23,011</u>	<u>(247,829)</u>
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS .....	<u>\$ 7,418</u>	<u>\$ (268,923)</u>

See accompanying notes to the unaudited financial statements.

## KKR PRIVATE EQUITY INVESTORS, L.P.

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

---

NET ASSETS—DECEMBER 31, 2007 .....	\$ 4,982,373
NET DECREASE IN NET ASSETS FROM OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008:	
Net investment loss.....	(86,174)
Net loss on investments and foreign currency transactions.....	<u>(2,281,937)</u>
Net decrease in net assets resulting from operations.....	<u>(2,368,111)</u>
Partners' capital contributions (issued 352,225 common units) .....	<u>4,407</u>
NET ASSETS—DECEMBER 31, 2008.....	<u>2,618,669</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2009:	
Net investment loss.....	(15,593)
Net gain on investments and foreign currency transactions.....	<u>23,011</u>
Net increase in net assets resulting from operations .....	<u>7,418</u>
NET ASSETS—MARCH 31, 2009.....	\$ <u>2,626,087</u>

See accompanying notes to the unaudited financial statements.



# KKR PRIVATE EQUITY INVESTORS, L.P.

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

	Quarter Ended	
	March 31, 2009	March 31, 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net increase (decrease) in net assets resulting from operations.....	\$ 7,418	\$ (268,923)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to cash and cash equivalents provided by operating activities:		
Net investment loss allocated from KKR PEI Investments, L.P.....	14,399	19,674
Net loss (gain) on investments and foreign currency transactions allocated from KKR PEI Investments, L.P. ....	(23,011)	247,829
Share-based compensation expense.....	26	12
Changes in operating assets and liabilities:		
Distribution received from KKR PEI Investments, L.P. ....	4,990	4,990
Decrease in other assets.....	100	85
Decrease in accrued liabilities .....	(651)	(349)
Decrease in due to affiliate .....	(1,318)	(660)
Net cash flows provided by operating activities.....	<u>1,953</u>	<u>2,658</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:</b>		
Partners' capital contributions .....	<u>—</u>	<u>4,407</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS.....</b>	<b>1,953</b>	<b>7,065</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of period .....</b>	<b><u>2,095</u></b>	<b><u>452</u></b>
<b>CASH AND CASH EQUIVALENTS—End of period.....</b>	<b><u>\$ 4,048</u></b>	<b><u>\$ 7,517</u></b>

See accompanying notes to the unaudited financial statements.

# KKR PRIVATE EQUITY INVESTORS, L.P.

## NOTES TO THE UNAUDITED 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. As of March 31, 2009 and December 31, 2008, 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. 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 makes all of these investments through KKR PEI Investments, L.P. (the "Investment Partnership"), of which it is the sole limited partner.

The Investment Partnership invests predominantly in private equity investments identified by KKR. Private equity investments consist of investments in limited partner interests in KKR's private equity funds, co-investments in certain portfolio companies of those funds and investments significantly negotiated by KKR in equity or equity-linked securities, which we refer to as negotiated equity investments. The Investment Partnership may make other investments in opportunistic investments, which are investments identified by KKR in the course of its business other than private equity investments, including public equities and fixed income investments. The Investment Partnership manages cash and liquidity through temporary investments.

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. KPE had an option to elect to be treated as a less regulated registered collective investment scheme by writing to the GFSC on or before April 30, 2009. KPE did not make such election.

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 March 31, 2009 and December 31, 2008, and (ii) KPE, which holds 100% of the limited partner interests in the Investment Partnership, which represented a 99.8% interest as of March 31, 2009 and December 31, 2008. 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. "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. As of March 31, 2009, the Investment Partnership had invested 97.8% of its adjusted assets in private equity and temporary investments and 2.2% of its adjusted assets in opportunistic investments.

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. (the “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. As of April 24, 2009, KPE and the Acquirer amended the Sale Agreement to extend to August 31, 2009 from April 27, 2009 the date by which the Transaction is required to be completed before either party may, subject to certain conditions, terminate the Sale Agreement.

## **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 unaudited consolidated financial statements of the Investment Partnership, including the schedule of its investments, should be read in conjunction with KPE’s unaudited financial statements.

The preparation of financial statements in conformity with U.S. GAAP requires the making of estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results may vary from estimates in amounts that may be material to the financial statements. The valuation of 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 position and its future obligations and expects KPE to continue as a going concern for at least one year. 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. Interim results may not be indicative of our results for a full fiscal year. The financial results presented herein include activity for the quarters ended March 31, 2009 and March 31, 2008.

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*

KPE adopted Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements*, on January 1, 2008. SFAS No. 157 establishes a hierarchical 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** – An unadjusted quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available.

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

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

KPE's investments in limited partner interests in the Investment Partnership are considered Level III investments, as the investments do not have a readily available market. As such, the investments in limited partner interests were valued by the Managing Partner and recorded at the determined fair value. Such limited partner interests 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 at a bank in a liquid investment with a maturity, at the date of acquisition, not exceeding 90 days.

### **Concentration of Credit Risk**

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

### **Other Assets**

As of March 31, 2009 and December 31, 2008, other assets were comprised primarily of prepaid 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 quarters ended March 31, 2009 and March 31, 2008.

### **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 administrative costs (some of which may be expenses of KKR that are attributable to KPE's operations and reimbursable under the services agreement), professional fees, the directors' fees and expenses that the Managing Partner pays to its independent directors and KPE's allocated share of the total management fees that are payable under the services agreement, if any.

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 March 31, 2009 or December 31, 2008.

## Recently Issued Accounting Pronouncements

### *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.

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly*. FSP No. 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased. FSP No. 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP No. 157-4 is effective for interim and annual periods ending after June 15, 2009 and shall be applied prospectively. KPE is currently evaluating the impact of adopting FSP No. 157-4 on its 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.

### *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. KPE adopted SFAS No. 161 on January 1, 2009. SFAS No. 161 did not have a material impact on the financial statements of KPE.

### *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**

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 March 31, 2009 and December 31, 2008, KPE's investments in limited partner interests in the Investment Partnership were valued at \$2,626.6 million and \$2,623.0 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 were as follows, with amounts in thousands:

Fair value of limited partner interests as of December 31, 2008 .....	\$ 2,622,970
Distributions from the Investment Partnership.....	(4,990)
Allocations from the Investment Partnership:	
Net investment loss .....	(14,399)
Net realized loss on investments.....	(93,899)
Net unrealized gain on investments and foreign currency transactions .....	116,910
Fair value of limited partner interests as of March 31, 2009.....	<u>\$ 2,626,592</u>

### **5. LIABILITIES**

As of March 31, 2009 and December 31, 2008, accrued liabilities of \$4.3 million and \$4.9 million, respectively, were comprised of accrued professional fees related to the business combination transaction between KPE and KKR & Co. L.P., 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 March 31, 2009 and December 31, 2008, the amount due to affiliate of \$0.3 million and \$1.6 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 March 31, 2009, 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, 2007 .....	\$ 152,263
Net decrease in net assets resulting from operations during the year ended December 31, 2008 .....	(2,368,111)
Distributable loss as of December 31, 2008 .....	(2,215,848)
Net increase in net assets resulting from operations during the quarter ended March 31, 2009 .....	7,418
Distributable loss as of March 31, 2009 .....	\$ (2,208,430)

As of March 31, 2009 and December 31, 2008, the accumulated undistributed net investment income was \$43.7 million and \$59.3 million, respectively. The accumulated undistributed net realized gain (loss) on investments and foreign currency transactions was \$(50.6) million and \$43.4 million as of March 31, 2009 and December 31, 2008, respectively. The accumulated undistributed net unrealized depreciation on investments and foreign currency transactions was \$2,113.7 million and \$2,230.6 million as of March 31, 2009 and December 31, 2008, respectively.

## 8. STOCK APPRECIATION RIGHTS

In March 2007, the board of directors of the Managing Partner approved the KKR Private Equity Investors, L.P. 2007 Equity Incentive Plan (the "Plan"). The Plan 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 March 31, 2009, 190,581 SARs were granted to key service providers at a base value not less than the closing price of common units on the date of grant. The weighted average grant date exercise price and fair value of SARs granted was \$5.85 and \$2.20, respectively. The SARs vest over a four year period and have a term not longer than ten years from the date of grant. As of March 31, 2009, 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 March 31, 2009:

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 quarter ended March 31, 2009 and March 31, 2008, the SARs resulted in share-based compensation expense of less than \$0.1 million during each respective period. As of March 31, 2009, there was approximately \$0.3 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 25% during the remainder of fiscal 2009, 33% in 2010, 25% 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, 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.

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.

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 quarters ended March 31, 2009 and March 31, 2008, KPE did not make any payments or accrue any liabilities related to the management fee; however, the Investment Partnership recorded management fee expense of \$8.2 million and \$13.4 million during the quarters ended March 31, 2009 and March 31, 2008, 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 March 31, 2009, managers' commissions, placement fees and other expenses incurred in connection with the initial offering and related transactions exceeded the amount of profits related to the carried interests and incentive distribution rights payable on certain of the Investment Partnership's consolidated investments as follows, with amounts in thousands:

Offering costs.....	\$	283,640
Versus creditable amounts.....		<u>141,162</u>
Remainder .....	\$	<u>142,478</u>

Therefore, no carried interests or incentive distributions based on opportunistic investments, temporary investments, co-investments or negotiated equity investments would be payable to the Associate Investor as of March 31, 2009.

Incentive fees may be incurred by SCF from time to time and will 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 are 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 quarters ended March 31, 2009 and March 31, 2008, KPE paid KKR \$2.1 million and \$1.6 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 31<sup>st</sup> following the relevant period or the election will be made on or before March 31<sup>st</sup> 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.

During the quarter ended March 31, 2009, 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. Affiliates investing in KPE's common units will not include KKR's traditional private equity funds.

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**

One or more investment funds managed by KKR may invest from time to time in KPE's common units including 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. KKR's traditional private equity funds are not among the funds that may invest in KPE's common units. These investments would not be made by KPE or any entities in which it invests, and they would not reduce the number of common units that KPE has outstanding. As of March 31, 2009, funds managed by KKR owned 4,667,166 of KPE's common units or 2.3% of common units outstanding.

As of March 31, 2009, the directors of the Managing Partner had no personal interest in the limited partner interests of the Investment Partnership held by KPE.

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

## 10. FINANCIAL HIGHLIGHTS

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

	For the Quarter Ended	
	March 31, 2009	March 31, 2008
Per unit operating performance:		
Net asset value at the beginning of the period .....	\$ 12.78	\$ 24.36
Adjustment to beginning net asset value for units issued during the period .....	—	(0.05)
	<u>12.78</u>	<u>24.31</u>
Income from investment operations:		
Net investment loss .....	(0.07)	(0.10)
Net gain (loss) on investments and foreign currency transactions.....	<u>0.11</u>	<u>(1.21)</u>
Total from investment operations.....	0.04	(1.31)
Capital contributions .....	—	0.02
Net asset value at the end of the period .....	<u>\$ 12.82</u>	<u>\$ 23.02</u>
Total return (annualized) .....	1.2%	(21.4)%
Percentages and supplemental data:		
Net assets at the end of the period .....	\$ 2,626,087	\$ 4,717,857
Ratios to average net assets:		
Total expenses (annualized) .....	3.0%	3.0%
Net investment loss (annualized) .....	(2.4)	(1.7)

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

## 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. SUBSEQUENT EVENTS

As of April 24, 2009, KPE and the Acquirer amended the Sale Agreement, whereby the Acquirer agreed to purchase all of KPE's assets and assume all of KPE's liabilities, to extend to August 31, 2009 from April 27, 2009 the date by which the Transaction is required to be completed before either party may, subject to certain conditions, terminate the Sale Agreement.

Although certain segments of the global capital market have improved since December 31, 2008, worldwide economies and other segments of the global capital market remain weak and, in general, credit remains scarce and confidence in global financial systems and economic performance has not been fully restored. As a result, sources of liquidity may be more difficult to obtain in the current market environment. The state of the financial markets may impact other aspects of the business, operations, investments or prospects of KPE in ways that are currently unforeseeable.

\* \* \* \* \*

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

**INDEX TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

	<b><u>Page</u></b>
Unaudited Consolidated Statements of Assets and Liabilities as of March 31, 2009 and December 31, 2008.....	F-19
Unaudited Consolidated Schedule of Investments as of March 31, 2009 .....	F-20
Unaudited Consolidated Schedule of Investments as of December 31, 2008.....	F-22
Unaudited Consolidated Schedules of Securities Sold, Not Yet Purchased as of December 31, 2008 .....	F-23
Unaudited Consolidated Statements of Operations for the Quarters Ended March 31, 2009 and March 31, 2008.....	F-24
Unaudited Consolidated Statements of Changes in Net Assets for the Year Ended December 31, 2008 and the Quarter Ended March 31, 2009 .....	F-25
Unaudited Consolidated Statements of Cash Flows for the Quarters Ended March 31, 2009 and March 31, 2008.....	F-26
Notes to the Unaudited Consolidated Financial Statements .....	F-28
Unaudited Supplemental Combining Schedules:	
Unaudited Combining Statement of Assets and Liabilities as of March 31, 2009 .....	F-55
Unaudited Combining Statement of Assets and Liabilities as of December 31, 2008 .....	F-56
Unaudited Combining Statement of Operations for Quarter Ended March 31, 2009 .....	F-57
Unaudited Combining Statement of Operations for the Quarter Ended March 31, 2008 .....	F-58
Unaudited Combining Statements of Changes in Net Assets for the Year Ended December 31, 2008 and the Quarter Ended March 31, 2009.....	F-59
Unaudited Combining Statement of Cash Flows for the Quarter Ended March 31, 2009 .....	F-60
Unaudited Combining Statement of Cash Flows for the Quarter Ended March 31, 2008 .....	F-62

# KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

	March 31, 2009	December 31, 2008
<b>ASSETS:</b>		
Investments, at fair value:		
Opportunistic investments—Class A (cost of \$0 and \$84,852, respectively) .....	\$ —	\$ 41,181
Co-investments in portfolio companies of private equity funds— Class B (cost of \$2,423,281 and \$2,663,611, respectively) .....	1,220,469	1,414,743
Negotiated equity investments—Class B (cost of \$992,582 and \$992,582, respectively) .....	667,857	649,155
Private equity funds—Class C (cost of \$1,685,063 and \$1,683,609, respectively) .....	1,162,992	1,184,958
Non-private equity fund—Class D (cost of \$133,975 and \$161,148, respectively) .....	58,482	62,583
	<u>3,109,800</u>	<u>3,352,620</u>
Cash and cash equivalents .....	638,444	623,316
Cash and cash equivalents held by a non-private equity fund .....	78	88
Restricted cash .....	10,897	18,011
Prepaid management fees .....	4,062	—
Unrealized gain on a foreign currency exchange contract .....	2,586	3,000
Other assets .....	204,284	7,689
Total assets .....	<u>3,970,151</u>	<u>4,004,724</u>
<b>LIABILITIES:</b>		
Accrued liabilities .....	40,650	37,691
Due to affiliates .....	40	2,864
Securities sold, not yet purchased (proceeds of \$0 and \$1,785, respectively) .....	—	1,916
Unrealized loss on foreign currency exchange contracts and an interest rate swap .....	20,949	32,331
Other liabilities .....	82	117
Revolving credit agreement .....	926,193	951,214
Long-term debt .....	350,000	350,000
Total liabilities .....	<u>1,337,914</u>	<u>1,376,133</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
	<u>—</u>	<u>—</u>
<b>NET ASSETS</b> .....	<u>\$ 2,632,237</u>	<u>\$ 2,628,591</u>
<b>NET ASSETS CONSIST OF:</b>		
Partners' capital contributions .....	\$ 4,836,568	\$ 4,836,568
Distributable loss .....	<u>(2,204,331)</u>	<u>(2,207,977)</u>
	<u>\$ 2,632,237</u>	<u>\$ 2,628,591</u>

See accompanying notes to the unaudited consolidated financial statements.

# KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

Investment	Class	March 31, 2009		
		Cost	Fair Value	Fair Value as a Percentage of Net Assets
INVESTMENTS BY TYPE:				
Opportunistic investments .....	A	\$ —	\$ —	—%
Co-investments in portfolio companies of private equity funds:	B			
Dollar General Corporation .....		214,686	279,092	10.6
HCA Inc. ....		201,444	201,444	7.7
Alliance Boots GmbH.....		301,352	172,171	6.5
The Nielsen Company B.V. ....		156,839	141,155	5.4
Biomet, Inc. ....		151,443	121,154	4.6
Energy Future Holdings Corp. ....		200,000	100,000	3.8
First Data Corporation .....		135,258	81,155	3.1
U.S. Foodservice, Inc. ....		100,000	80,000	3.0
NXP B.V. ....		250,000	25,000	1.0
KION Group GmbH.....		112,824	11,395	0.4
ProSiebenSat.1 Media AG.....		226,913	7,903	0.3
Capmark Financial Group Inc. ....		137,321	—	—
PagesJaunes Groupe S.A. ....		235,201	—	—
		2,423,281	1,220,469	46.4
Negotiated equity investments:	B			
Sun Microsystems, Inc. convertible senior notes.....		701,164	525,000	20.0
Orient Corporation convertible preferred stock.....		169,706	142,857	5.4
Aero Technical Support & Services S.à r.l. (Aveos).....		121,712	—	—
		992,582	667,857	25.4
Private equity funds:	C			
KKR 2006 Fund L.P. ....		1,107,241	808,636	30.7
KKR Millennium Fund L.P.....		203,718	128,630	4.9
KKR European Fund, Limited Partnership.....		202,115	124,944	4.7
KKR Asian Fund L.P. ....		66,057	51,267	2.0
KKR European Fund II, Limited Partnership.....		96,955	44,549	1.7
KKR European Fund III, Limited Partnership.....		8,977	4,966	0.2
		1,685,063	1,162,992	44.2
Non-private equity funds –				
Investments by KKR Strategic Capital Institutional Fund, Ltd. ....	D	133,975	58,482	2.2
		\$ 5,234,901	\$ 3,109,800	118.2%

Continued on the following page.



# KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

	March 31, 2009		Fair Value as a Percentage of Net Assets
Investment	Cost	Fair Value	
INVESTMENTS BY GEOGRAPHY :			
North America .....	\$ 3,245,698	\$ 2,322,092	88.2%
Europe .....	1,656,550	517,132	19.7
Asia Pacific .....	332,653	270,576	10.3
	<u>\$ 5,234,901</u>	<u>\$ 3,109,800</u>	<u>118.2%</u>
INVESTMENTS BY INDUSTRY :			
Health Care.....	\$ 982,585	\$ 742,510	28.2%
Technology .....	1,126,964	659,633	25.1
Retail .....	589,894	580,620	22.1
Financial Services.....	854,592	455,256	17.3
Media/Telecom .....	763,507	234,087	8.9
Energy .....	369,808	186,040	7.1
Industrial .....	438,520	175,281	6.6
Consumer Products .....	89,860	57,126	2.2
Chemicals .....	19,171	19,247	0.7
	<u>\$ 5,234,901</u>	<u>\$ 3,109,800</u>	<u>118.2%</u>

See accompanying notes to the unaudited consolidated financial statements.

# KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

		December 31, 2008		
Investment	Class	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
		<u>84,852</u>	<u>41,181</u>	<u>1.5</u>
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	—	—
		<u>2,663,611</u>	<u>1,414,743</u>	<u>53.8</u>
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	—	—
		<u>992,582</u>	<u>649,155</u>	<u>24.7</u>
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
		<u>1,683,609</u>	<u>1,184,958</u>	<u>45.1</u>
Non-private equity funds – Investments by KKR Strategic Capital Institutional Fund, Ltd. ....	D	161,148	62,583	2.4
		<u>\$ 5,585,802</u>	<u>\$ 3,352,620</u>	<u>127.5%</u>

Continued on the following page.

# KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

Investment	December 31, 2008		
	Cost	Fair Value	Fair Value as a Percentage of Net Assets
INVESTMENTS BY GEOGRAPHY :			
North America .....	\$ 3,596,303	\$ 2,521,953	95.9%
Europe .....	1,656,846	554,227	21.1
Asia Pacific .....	332,653	276,440	10.5
	<u>\$ 5,585,802</u>	<u>\$ 3,352,620</u>	<u>127.5%</u>
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
	<u>\$ 5,585,802</u>	<u>\$ 3,352,620</u>	<u>127.5%</u>

See accompanying notes to the unaudited consolidated financial statements.

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

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

See accompanying notes to the unaudited consolidated financial statements.

# KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

	Quarter Ended	
	March 31, 2009	March 31, 2008
INVESTMENT INCOME:		
Interest income.....	\$ 3,796	\$ 11,901
Dividend income, net of withholding taxes of \$0 and \$71, respectively .....	—	3,371
Total investment income .....	<u>3,796</u>	<u>15,272</u>
EXPENSES:		
Management fees.....	8,232	13,407
Interest expense .....	9,444	19,640
Dividend expense .....	—	574
General and administrative expenses .....	532	1,341
Total expenses .....	<u>18,208</u>	<u>34,962</u>
NET INVESTMENT LOSS.....	<u>(14,412)</u>	<u>(19,690)</u>
REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY:		
Net realized gain (loss).....	(94,095)	3,998
Net change in unrealized appreciation (depreciation).....	<u>117,153</u>	<u>(252,343)</u>
Net gain (loss) on investments and foreign currency transactions .....	<u>23,058</u>	<u>(248,345)</u>
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS .....	\$ <u>8,646</u>	\$ <u>(268,035)</u>

See accompanying notes to the unaudited consolidated financial statements.

## KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

	General Partner	Limited Partner	Total
NET ASSETS—DECEMBER 31, 2007 .....	\$ 10,445	\$ 4,984,533	\$ 4,994,978
DECREASE IN NET ASSETS FROM OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008:			
Net investment loss .....	(47)	(64,657)	(64,704)
Net realized loss on investments and foreign currency transactions .....	(217)	(104,356)	(104,573)
Net change in unrealized depreciation on investments and foreign currency transactions.....	(4,529)	(2,177,581)	(2,182,110)
Net decrease in net assets resulting from operations .....	(4,793)	(2,346,594)	(2,351,387)
Fair value of distributions.....	(31)	(14,969)	(15,000)
DECREASE IN NET ASSETS .....	(4,824)	(2,361,563)	(2,366,387)
NET ASSETS—DECEMBER 31, 2008 .....	5,621	2,622,970	2,628,591
INCREASE IN NET ASSETS FROM OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2009:			
Net investment loss .....	(13)	(14,399)	(14,412)
Net realized loss on investments and foreign currency transactions .....	(196)	(93,899)	(94,095)
Net change in unrealized appreciation on investments and foreign currency transactions.....	243	116,910	117,153
Net increase in net assets resulting from operations.....	34	8,612	8,646
Fair value of distributions.....	(10)	(4,990)	(5,000)
INCREASE IN NET ASSETS.....	24	3,622	3,646
NET ASSETS—MARCH 31, 2009 .....	\$ 5,645	\$ 2,626,592	\$ 2,632,237

See accompanying notes to the unaudited consolidated financial statements.

# KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

	Quarter Ended	
	March 31, 2009	March 31, 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net increase (decrease) in net assets resulting from operations .....	\$ 8,646	\$ (268,035)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to cash and cash equivalents provided by operating activities:		
Amortization of deferred financing costs .....	217	217
Net realized loss (gain) on investments .....	94,095	(3,998)
Net change in unrealized depreciation (appreciation) on investments .....	(106,185)	188,185
Decrease (increase) in net unrealized loss on foreign currency exchange contracts and an interest rate swap .....	(10,968)	64,158
Changes in operating assets and liabilities:		
Purchase of opportunistic investments .....	—	(39,514)
Purchase of securities to settle short sales .....	(1,580)	(117,940)
Purchase of options .....	—	(4,774)
Purchase of investments by private equity funds .....	(1,454)	(106,059)
Purchase of investments by a non-private equity fund .....	(14,606)	(4,559)
Proceeds from sale of opportunistic investments .....	47,519	213,502
Proceeds from securities sold short, not yet purchased .....	—	167,358
Proceeds from options written .....	—	1,954
Proceeds from the termination of a transaction under a forward foreign exchange contract .....	7,475	—
Proceeds from sale of investments by private equity funds .....	—	10,270
Proceeds from sale of investments by a non-private equity fund .....	13,657	245
Decrease in cash and cash equivalents held by a non- private equity fund .....	10	682
Decrease (increase) in restricted cash .....	7,114	(30,151)
Increase in prepaid management fees .....	(4,062)	—
Decrease in other assets .....	3,588	1,887
Increase in accrued liabilities .....	2,959	10,048
Decrease in due to affiliates .....	(2,824)	(10,085)
Decrease in other liabilities .....	(35)	(3)
Net cash flows provided by operating activities .....	<u>43,566</u>	<u>73,388</u>

Continued on the following page.

# KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

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

	Quarter Ended	
	March 31, 2009	March 31, 2008
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on borrowings under the revolving credit agreement .....	(22,238)	—
Distributions to partners .....	(5,000)	(5,000)
Net cash flows used in financing activities .....	(27,238)	(5,000)
Effect of foreign exchange rate changes on cash .....	(1,200)	—
NET INCREASE IN CASH AND CASH EQUIVALENTS .....	15,128	68,388
CASH AND CASH EQUIVALENTS—Beginning of period .....	623,316	255,415
CASH AND CASH EQUIVALENTS—End of period .....	<u>\$ 638,444</u>	<u>\$ 323,803</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid .....	\$ 6,111	\$ 16,188
SUPPLEMENTAL NON-CASH ACTIVITIES:		
Increase in other assets for proceeds due from the sale of co-investments .....	\$ 200,400	\$ —
Decrease in revolving credit agreement - foreign currency adjustments .....	(2,028)	—

See accompanying notes to the unaudited consolidated financial statements.

# KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BUSINESS

KKR PEI Investments, L.P. (the "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 March 31, 2009 and December 31, 2008. 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 makes its investments. The Investment Partnership predominantly invests in private equity investments identified by KKR. Private equity investments consist of investments in limited partner interests in KKR's private equity funds, co-investments in certain portfolio companies of those funds and investments significantly negotiated by KKR in equity or equity-linked securities, which we refer to as negotiated equity investments. The Investment Partnership may make other investments in opportunistic investments, which are investments identified by KKR in the course of its business other than private equity investments, including public equities and fixed income investments. The Investment Partnership manages cash and liquidity through temporary investments.

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. "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. As of March 31, 2009, the Investment Partnership had invested 97.8% of its adjusted assets in private equity and temporary investments and 2.2% of its adjusted assets in opportunistic investments.

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

<b>Type of Investments Held by the Investment Partnership</b>	
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. (the “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. As of April 24, 2009, KPE and the Acquirer amended the Sale Agreement to extend to August 31, 2009 from April 27, 2009, the date by which the Transaction is required to be completed before either party may, subject to certain conditions, terminate the Sale Agreement.

## **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. Interim results may not be indicative of our results for a full fiscal year. The financial results presented herein include activity for the quarters ended March 31, 2009 and March 31, 2008.

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 one year. 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.

### **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*

The Investment Partnership adopted Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements*, on January 1, 2008. SFAS No. 157 establishes a hierarchical 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** – An unadjusted quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available. As required by SFAS No. 157, the Investment Partnership will 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** – Inputs are other than unadjusted quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

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

#### *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*

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

	<b>Valuation Methodology when Determining Fair Value in Good Faith</b>
<b>Level II:</b>	
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	<p>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:</p> <ul style="list-style-type: none"> <li>• terms and conditions of the investment;</li> <li>• discount for lack of marketability;</li> <li>• borrowing costs;</li> <li>• time to maturity of the investment; and</li> <li>• volatility of the reference asset for which a market quotation is readily available.</li> </ul>
<b>Level III:</b>	
Limited partner interests in KKR's private equity funds and investments by a non-private equity fund	<p>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.</p> <p>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.</p>
Investments in companies for which a market quotation is not readily available	<p>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:</p> <ul style="list-style-type: none"> <li>• the company's historical and projected financial data;</li> <li>• valuations given to comparable companies;</li> <li>• the size and scope of the company's operations;</li> <li>• expectations relating to the market's receptivity to an offering of the company's securities;</li> <li>• any control associated with interests in the company that are held by KKR and its affiliates including the Investment Partnership;</li> <li>• 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);</li> <li>• applicable restrictions on transfer;</li> <li>• industry information and assumptions;</li> <li>• general economic and market conditions; and</li> <li>• other factors deemed relevant.</li> </ul>

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

If the Investment Partnership were to write an option, an amount equal to the premium received would be recorded as a liability and subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised would be 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, would also be 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, would bear the market risk of an unfavorable change in the price of the security underlying the written option.

The risks of entering into swap and option agreements include, but are not limited to, the possible lack of liquidity, failure of the counterparty to meet its obligations and unfavorable changes in the underlying investments. The counterparties to the 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 of such agreements, although there is no assurance that these counterparties will remain solvent in the current market environment.

### **Cash and Cash Equivalents**

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

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

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

## Restricted Cash

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

## Prepaid Management Fees

As of March 31, 2009, prepaid management fees represented the excess of cash that the Investment Partnership, as a limited partner of KKR's investment funds, paid to KKR or its affiliates during the quarter ended March 31, 2009 in respect of management fees of such funds over management fees due under the services agreement.

## 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 gain or loss on the contracts is the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date and is included in the consolidated statements of assets and liabilities. These foreign currency exchange contracts involve market risk and/or credit risk in excess of the amounts recognized in the statements of assets and liabilities. Risks arise from movements in currency, security values and interest rates and the possible inability of the counterparties to meet the terms of the contracts.

## Other Assets

As of March 31, 2009, other assets consisted primarily of proceeds due from the sale of certain interests in co-investments, debt issuance costs, interest receivable and other receivables. The proceeds due from the sale of certain interests in co-investments of \$200.4 million as of March 31, 2009, were received in April 2009. As of December 31, 2008, other assets consisted of debt issuance costs, interest receivable and other receivables.

## Accrued Liabilities

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

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Accrued interest, long-term debt .....	\$ 39,403	\$ 36,719
Accrued interest, revolving credit agreement .....	872	481
Professional fees .....	298	403
Other .....	77	88
	<u>\$ 40,650</u>	<u>\$ 37,691</u>

## Due to Affiliates

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

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Management fees and reimbursable expenses payable to KKR by the Investment Partnership .....	\$ 28	\$ 2,851
Management fees payable to KKR by SCF .....	12	13
	<u>\$ 40</u>	<u>\$ 2,864</u>

## Other Liabilities

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

## Net Assets

As of March 31, 2009 and December 31, 2008, the net assets attributable to the general partner were \$5.6 million and \$5.6 million, respectively, and to the limited partner were \$2,626.6 million and \$2,623.0 million, respectively.

## Income Recognition

The assets of the Investment Partnership generate income or loss 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, typically comparable company analysis and discounted cash flow analysis, and records an amount that is within a range suggested by the methodologies. Each methodology incorporates various assumptions, and the outcome derived from one methodology may offset the outcome of another methodology such that no change in valuation may result from period to period. When an investment carried as an asset is sold and a resulting gain or loss is realized, including any related gain or loss from foreign currency transactions, an accounting entry is made to reverse any unrealized appreciation or depreciation previously recorded in order to ensure that the realized gain or loss recognized in connection with the sale of the investment does not result in the double counting of the previously reported unrealized appreciation or depreciation.

## Expense Recognition

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

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") and the amortization of debt financing costs. See Note 7, "Revolving Credit Agreement and Long-Term Debt." In addition, and less significantly, interest expense related to outstanding borrowings by SCF was included in interest expense.

Dividend expense related to dividends paid on securities sold, not yet purchased. The Investment Partnership settled all transactions related to securities sold, not yet purchased during the quarter ended March 31, 2009. As such, no dividend expense was recorded during the quarter ended March 31, 2009.

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 March 31, 2009 and December 31, 2008, 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, 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 March 31, 2009 and December 31, 2008, 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 March 31, 2009 or December 31, 2008.

## **Recently Issued Accounting Pronouncements**

### *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.

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly*. FSP No. 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased. FSP No. 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP No. 157-4 is effective for interim and annual periods ending after June 15, 2009 and shall be applied prospectively. The Investment Partnership is currently evaluating the impact of adopting FSP No. 157-4 on its consolidated 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. 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. The Investment Partnership adopted SFAS No. 161 on January 1, 2009. SFAS No. 161 did not have a material impact on the Investment Partnership's 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 5.0% of the Investment Partnership's net assets were as follows, with amounts in thousands, except percentages:

March 31, 2009			
	Cost	Fair Value	Fair Value as a Percentage of the Investment Partnership's Net Assets
KKR Portfolio Companies (1):			
Dollar General Corporation .....	\$ 310,181	\$ 397,506	15.1%
Alliance Boots GmbH .....	443,114	264,299	10.0
HCA Inc. ....	260,920	260,920	9.9
First Data Corporation .....	347,551	208,531	7.9
Biomet, Inc. ....	256,358	205,087	7.8
Energy Future Holdings Corp. ....	365,922	182,961	7.0
The Nielsen Company B.V. ....	172,841	155,557	5.9
U.S. Foodservice, Inc. ....	193,633	154,906	5.9
Negotiated Equity Investments:			
Sun Microsystems, Inc. (2) .....	701,164	525,000	20.0
Orient Corporation .....	169,707	142,857	5.4
	<u>\$ 3,221,391</u>	<u>\$ 2,497,624</u>	<u>94.9%</u>



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
	<u>\$ 3,461,722</u>	<u>\$ 2,640,631</u>	<u>100.5%</u>

(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 \$175.0 million, or 6.6% of the Investment Partnership's total net assets, as of March 31, 2009 and \$150.5 million, or 5.7% of the Investment Partnership's total net assets, as of December 31, 2008.

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

March 31, 2009			
	Fair Value of Co-Investment	Pro Rata Share of KKR's Private Equity Fund Investment	Aggregate Fair Value
Dollar General Corporation.....	\$ 279,092	\$ 118,414	\$ 397,506
Alliance Boots GmbH .....	172,171	92,128	264,299
HCA Inc. ....	201,444	59,476	260,920
First Data Corporation .....	81,155	127,376	208,531
Biomet, Inc. ....	121,154	83,933	205,087
Energy Future Holdings Corp. ....	100,000	82,961	182,961
The Nielsen Company B.V. ....	141,155	14,402	155,557
U.S. Foodservice, Inc. ....	80,000	74,906	154,906
	<u>\$ 1,176,171</u>	<u>\$ 653,596</u>	<u>\$ 1,829,767</u>

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
	<u>\$ 1,330,123</u>	<u>\$ 661,353</u>	<u>\$ 1,991,476</u>

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:

	March 31, 2009	December 31, 2008
Investment in Strategic Capital Holdings I, L.P., at fair value .....	\$ 54,405	\$ 56,957
Special investments, at fair value .....	4,077	5,626
	<u>\$ 58,482</u>	<u>\$ 62,583</u>

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

	March 31, 2009	December 31, 2008
<b>Assets:</b>		
Cash and cash equivalents .....	\$ 8,330	\$ 2,525
Restricted cash and cash equivalents.....	15,313	36,259
Securities, at fair value .....	2,139	5,310
Private equity investments, at fair value.....	368	369
Corporate loans, at fair value .....	14,327	6,277
Collateralized loan obligation in affiliates.....	24,093	27,259
Reverse repurchase agreements .....	3,763	5,344
Derivative assets .....	—	7,661
Interest receivable .....	1,472	3,664
Other assets .....	514	530
Total assets .....	<u>70,319</u>	<u>95,198</u>
<b>Liabilities:</b>		
Repurchase agreements .....	—	1,065
Interest payable.....	55	237
Securities sold, not yet purchased, at fair value .....	4,065	5,238
Derivative liabilities.....	4,999	22,874
Other payables.....	6,795	8,827
Total liabilities .....	<u>15,914</u>	<u>38,241</u>
Net assets .....	<u>\$ 54,405</u>	<u>\$ 56,957</u>

As of March 31, 2009 and December 31, 2008, SCF had an investment balance of \$4.1 million and \$5.6 million, respectively, in special investments. Special investments are certain investments, acquired through direct investment or private placement that are believed to be illiquid, lack a readily assessable market value or should be held until the resolution of a special event or circumstance.

In addition to the aggregate private equity investments reflected above under "Significant Investments," SCF, through its investment in SCH, invested in debt securities (executed with derivative instruments) in Energy Future Holds Corp. in the amount of \$(1.0) million as of March 31, 2009 and December 31, 2008.

#### 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 March 31, 2009			
	Total	Level I	Level II	Level III
<b>Assets, at fair value:</b>				
Co-investments in portfolio companies .....	\$ 1,220,469	\$ —	\$ —	\$ 1,220,469
Negotiated equity investments .....	667,857	—	667,857	—
Private equity funds .....	1,162,992	—	—	1,162,992
Non-private equity funds—Investments by KKR Strategic Capital Institutional Fund, Ltd. ....	58,482	—	—	58,482
	<u>\$ 3,109,800</u>	<u>\$ —</u>	<u>\$ 667,857</u>	<u>\$ 2,441,943</u>

		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
	\$	<u>3,352,620</u>	\$ <u>1,072</u>	\$ <u>689,264</u>	\$ <u>2,662,284</u>
Liabilities, at fair value:					
Securities sold, not yet purchased .....	\$	<u>1,916</u>	\$ <u>1,916</u>	\$ —	\$ —
	\$	<u>1,916</u>	\$ <u>1,916</u>	\$ —	\$ —

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
Net realized loss on investments .....	(54,527)
Change in net unrealized loss on investments .....	(1,779,826)
Transfers out .....	(131,207)
Fair value of investments as of December 31, 2008 .....	<u>2,662,284</u>
Sales, net of purchases .....	(197,997)
Net realized loss on investments .....	(68,052)
Change in net unrealized appreciation on investments .....	45,708
Fair value of investments as of December 31, 2008 .....	<u>\$ 2,441,943</u>

## 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 March 31, 2009 and December 31, 2008, the fair value of securities sold short, not yet purchased was nil and \$1.9 million, respectively. During the quarter ended March 31, 2009 and March 31, 2008, net realized gain (loss) on investments and foreign currency transactions included \$0.2 million and \$1.6, respectively, from closed positions in securities sold, not yet purchased.

## 6. DERIVATIVES

The Investment Partnership uses derivative instruments as part of its overall strategy to manage its exposure to market risks primarily associated with fluctuations in foreign currency and interest rates. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, the Investment Partnership records all derivative instruments at fair value, as either assets or liabilities. The Investment Partnership does not designate its derivative instruments in hedge accounting relationships under SFAS No. 133. The fluctuation in the fair value of these derivative instruments offset the impact of changes in the value of the underlying risk that they are intended to economically hedge. Changes in

the fair value of derivative instruments are included in net unrealized gain or loss from investments and foreign currency transactions in the consolidated statements of operations.

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 gain or loss on the contracts is the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date and is included in the consolidated statements of assets and liabilities.

In February 2008, an interest rate swap transaction related to the U.S. dollar denominated borrowings outstanding under the 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. The Investment Partnership uses the interest rate swap to manage the interest rate risk associated with the floating rate under its Credit Agreement.

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:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
<b>ASSETS:</b>		
Foreign currency exchange contracts:		
€50.0 million vs. \$69.7 million for settlement in February 2013	\$ 2,586	\$ —
€150.0 million vs. \$209.0 million for settlement in February 2013 .....	—	3,000
	<u>\$ 2,586</u>	<u>\$ 3,000</u>
<b>LIABILITIES:</b>		
Foreign currency exchange contract - ¥10.0 billion vs. \$91.6 million for settlement in June 2010 .....	\$ (10,275)	\$ (19,792)
Interest rate swap contract .....	(10,674)	(12,539)
	<u>\$ (20,949)</u>	<u>\$ (32,331)</u>

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

During the quarters ended March 31, 2009 and March 31, 2008, the net realized gain (loss) on investments and foreign currency transactions included nil and \$3.4 million, respectively, from the expiration or closing of options.

## 7. 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 March 31, 2009, \$2,783.1 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 \$45.6 million in commitments as of March 31, 2009. 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 \$73.8 million absent Lehman's bankruptcy to \$28.2 million in unfunded commitments as of March 31, 2009, 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 quarters ended March 31, 2009 and March 31, 2008, interest expense of \$6.7 million and \$14.9 million, respectively, related to borrowings under the Credit Agreement, including the amortization of debt financing costs.

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 March 31, 2009, 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. The Investment Partnership will be required to repay all outstanding borrowings under the Credit Agreement at that time if the Investment Partnership is unable to refinance the Credit Agreement prior to its expiration or termination. Borrowings under the Credit Agreement may be used for general business purposes of the 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:

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Borrowings outstanding .....	\$ 941,921	\$ 968,970
Foreign currency adjustments - unrealized gains related to borrowings denominated in:		
British pounds sterling .....	(15,728)	(14,058)
Canadian dollars.....	—	(3,698)
	<u>\$ 926,193</u>	<u>\$ 951,214</u>

During the quarters ended March 31, 2009 and March 31, 2008, the weighted average dollar amount of borrowings related to the Credit Agreement was \$990.0 million and \$999.3 million, respectively, and the weighted average interest rate was 1.5% and 5.8%, 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 March 31, 2009 and December 31, 2008, 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. During the quarters ended March 31, 2009 and March 31, 2008, interest expense related to the Investment Partnership's financing of the Sun investment was \$2.7 million and \$4.1 million, respectively.

The financing provides for early settlement upon the occurrence of certain events, including an event based on the value of the collateral and other events of default. The Pledged Notes are held by wholly-owned subsidiaries formed by the 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 both the quarters ended March 31, 2009 and March 31, 2008, the weighted average dollar amount of borrowings related to the long-term debt was \$350.0 million and the weighted average interest rate was 2.8% and 4.7%, respectively.

#### *Fair Value*

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

#### *Principal Payments*

As of March 31, 2009, 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:

	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>Less than 1 year</b>	<b>1 to 3 Years</b>	<b>3 to 5 Years</b>	<b>More than 5 years</b>
Revolving credit agreement.....	\$ 926,193	\$ —	\$ —	\$ 926,193	\$ —
Long-term debt .....	350,000	—	175,000	175,000	—
Total.....	<u>\$ 1,276,193</u>	<u>\$ —</u>	<u>\$ 175,000</u>	<u>\$ 1,101,193</u>	<u>\$ —</u>

## 8. DISTRIBUTABLE EARNINGS (LOSS)

The Investment Partnership's distributable earnings (loss) were comprised of the following, with 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)	Total
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.....	<u>(15,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(15,000)</u>
Distributable loss as of December 31, 2008.....	(110,664)	(1,584,962)	(399,934)	(112,417)	(2,207,977)
Net increase (decrease) in net assets resulting from operations during the quarter ended March 31, 2009.....	(3,741)	39,885	(23,420)	(4,078)	8,646
Distribution to partners.....	<u>(5,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,000)</u>
Distributable loss as of March 31, 2009 .....	\$ <u>(119,405)</u>	\$ <u>(1,545,077)</u>	\$ <u>(423,354)</u>	\$ <u>(116,495)</u>	\$ <u>(2,204,331)</u>

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

As of March 31, 2009 and December 31, 2008, the accumulated undistributed net investment income was \$77.5 million and \$91.9 million, respectively. The accumulated undistributed net realized gain (loss) on investments and foreign currency transactions was \$(50.6) million and \$43.5 million as of March 31, 2009 and December 31, 2008, respectively. The accumulated undistributed net unrealized depreciation on investments and foreign currency transactions was \$2,118.0 million and \$2,235.2 million as March 31, 2009 and December 31, 2008, respectively.



## 9. OPERATING RESULTS ALLOCATED TO THE GENERAL AND LIMITED PARTNERS

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

Quarter Ended March 31, 2009			
	General Partner	Limited Partner	Total
Investment income:			
Interest income .....	\$ 8	\$ 3,788	\$ 3,796
Total investment income .....	8	3,788	3,796
Expenses:			
Management fees .....	—	8,232	8,232
Interest expense .....	20	9,424	9,444
General and administrative expenses .....	1	531	532
Total expenses .....	21	18,187	18,208
Net investment loss .....	(13)	(14,399)	(14,412)
Realized and unrealized gain (loss) from investments and foreign currency:			
Net realized loss .....	(196)	(93,899)	(94,095)
Net change in unrealized appreciation .....	243	116,910	117,153
Net gain on investments and foreign currency transactions .....	47	23,011	23,058
Net increase in net assets resulting from operations .....	\$ 34	\$ 8,612	\$ 8,646

Quarter Ended March 31, 2008			
	General Partner	Limited Partner	Total
Investment income:			
Interest income .....	\$ 24	\$ 11,877	\$ 11,901
Dividend income, net of withholding taxes of \$0, \$71 and \$71, respectively .....	7	3,364	3,371
Total investment income .....	31	15,241	15,272
Expenses:			
Management fees .....	—	13,407	13,407
Interest expense .....	41	19,599	19,640
Dividend expense .....	2	572	574
General and administrative expenses .....	4	1,337	1,341
Total expenses .....	47	34,915	34,962
Net investment loss .....	(16)	(19,674)	(19,690)
Realized and unrealized gain (loss) from investments and foreign currency:			
Net realized gain .....	8	3,990	3,998
Net change in unrealized depreciation .....	(524)	(251,819)	(252,343)
Net loss on investments and foreign currency transactions .....	(516)	(247,829)	(248,345)
Net decrease in net assets resulting from operations .....	\$ (532)	\$ (267,503)	\$ (268,035)

## 10. 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:

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008
Opportunistic investments .....	\$ 43,802	\$ (6,233)
Temporary investments:		
Interest rate swap .....	1,865	(11,391)
Foreign currency adjustments.....	(2,028)	3,259
	<u>(163)</u>	<u>(8,132)</u>
Co-investments:		
HCA Inc. ....	50,000	—
Dollar General Corporation .....	39,406	—
First Data Corporation.....	25,897	—
Biomet, Inc. ....	9,711	—
The Nielsen Company B.V. ....	4,316	20,000
Energy Future Holdings Corp. ....	(40,000)	—
ProSiebenSat.1 Media AG .....	(14,256)	13,035
Capmark Financial Group Inc. ....	(13,500)	(13,500)
KION Group GmbH.....	(12,566)	10,258
Alliance Boots GmbH.....	(2,952)	(180)
NXP B.V. ....	—	17,555
PagesJaunes Groupe S.A.....	—	(108,584)
Forward foreign currency exchange contracts .....	(414)	(43,593)
	<u>45,642</u>	<u>(105,009)</u>
Negotiated equity investments:		
Sun Microsystems, Inc. ....	24,500	(45,150)
Orient Corporation .....	3,720	(35,809)
Aero Technical Support & Services S.à r.l. (Aveos) ....	—	(3,113)
	<u>28,220</u>	<u>(84,072)</u>
Investments in private equity funds:		
KKR Asian Fund .....	2,008	5,715
KKR 2006 Fund .....	(14,051)	11,243
KKR European Fund II.....	(4,483)	(1,702)
KKR Millennium Fund. ....	(3,454)	(14,064)
KKR European Fund.....	(3,354)	(25,960)
KKR European Fund III.....	(86)	—
	<u>(23,420)</u>	<u>(24,768)</u>
Investments in a non-private equity fund.....	<u>23,072</u>	<u>(24,129)</u>
	<u>\$ 117,153</u>	<u>\$ (252,343)</u>

## 11. DISTRIBUTIONS

The Associate Investor determines, in its sole discretion, the amount and timing of distributions in respect of the Class A, Class B, Class C and Class D partner interests. If and when made, the distributions will be made pro rata in accordance with the partner's percentage interests, except as otherwise discussed below. During the quarter ended March 31, 2009, the Investment Partnership made distributions of \$5.0 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 12, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."

Distributions in Respect of Class A; Opportunistic and Temporary Investments	<ul style="list-style-type: none"> <li>• 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 unrecovered losses have been recovered.</li> <li>• Appreciation is measured at the end of each annual accounting period.</li> <li>• The amount of appreciation is increased to reflect withdrawals of capital and decreased to reflect capital contributions for opportunistic and temporary investments.</li> <li>• Incentive distribution payable is temporarily waived, as discussed in Note 12, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."</li> </ul>
--	---

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.

<p>Distributions in Respect of Class B; Co-Investments in Portfolio Companies and Negotiated Equity Investments</p>	<ul style="list-style-type: none"> <li>• The Associate Investor is entitled to a carried interest of 20% on the net realized returns on each co-investment or negotiated equity investment.</li> <li>• 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.</li> <li>• The Associate Investor may make distributions to itself in respect of its Class B carried interest without making corresponding distributions to the limited partner.</li> <li>• Carried interest payable is temporarily waived, as discussed in Note 12, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."</li> </ul>
<p>Distributions in Respect of Class C; Investments in KKR's Private Equity Funds</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• Class C carried interests paid may offset the management fee payable under the services agreement for a limited time as discussed in Note 12, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."</li> </ul>

Distributions in Respect of Class D; Investments in KKR's Investment Funds Other than Private Equity Funds	<ul style="list-style-type: none"> <li>• 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.</li> <li>• The amount and calculation of the incentive distribution may vary from fund to fund.</li> <li>• 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.</li> <li>• Class D incentive distributions paid may offset the management fee payable under the services agreement for a limited time as discussed in Note 12, "Relationship with KKR and Related Party Transactions—Carried Interests and Incentive Distributions."</li> </ul>
--	---

## 12. 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, 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.

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.

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 quarters ended March 31, 2009 and March 31, 2008, management fee expense was \$8.2 million and \$13.4 million, respectively.

## Carried Interests and Incentive Distributions

As described in Note 11, "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 March 31, 2009, managers' commissions, placement fees and other expenses incurred in connection with the initial offering and related transactions exceeded the amount of profits related to the carried interests and incentive distribution rights payable on certain of the Investment Partnership's consolidated investments as follows, with amounts in thousands:

Offering costs .....	\$	283,640
Versus creditable amounts .....		<u>141,162</u>
Remainder .....	\$	<u>142,478</u>

Therefore, no carried interests or incentive distributions based on opportunistic investments, temporary investments, co-investments or negotiated equity investments would be payable to the Associate Investor as of March 31, 2009.

Incentive fees may be incurred by SCF from time to time and will 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 will 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 \$2,441.9 million and \$2,662.3 million as of March 31, 2009 and December 31, 2008, respectively, which included investments in co-investments in KKR portfolio companies, KKR private equity funds and SCF. All other investments were in unaffiliated issuers, which included negotiated equity investments of \$667.9 million as of March 31, 2009 and negotiated equity and opportunistic investments totaling \$690.3 million as of December 31, 2008.

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

	Quarter Ended	
	March 31, 2009	March 31, 2008
Net realized gain (loss) from:		
Investments in affiliates.....	\$ (68,053)	\$ 10,515
Investments in unaffiliated issuers .....	(26,042)	(6,517)
	<u>(94,095)</u>	<u>3,998</u>
Net change in unrealized appreciation (depreciation) from:		
Investments in affiliates .....	45,708	(110,314)
Investments in unaffiliated issuers.....	71,445	(142,029)
	<u>117,153</u>	<u>(252,343)</u>
Net gain (loss) on investments and foreign currency transactions.....	<u>\$ 23,058</u>	<u>\$ (248,345)</u>

### Reimbursed Expenses

During both the quarters ended March 31, 2009 and March 31, 2008, the Investment Partnership paid KKR less than \$0.1 million for reimbursable direct expenses incurred pursuant to the services agreement. These reimbursed expenses were included in the Investment Partnership's general and administrative expenses.

### 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.

### Other

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

## 13. COMMITMENTS

As of March 31, 2009, 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	\$ 447,759
KKR European Fund III, Limited Partnership .....	300,000	291,192
KKR Asian Fund L.P. ....	<u>285,000</u>	<u>218,943</u>
	<u>\$ 2,140,000</u>	<u>\$ 957,894</u>

Capital contributions are due on demand; however, given the size of such commitments and rates at which 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 March 31, 2009, 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.

#### 14. FINANCIAL HIGHLIGHTS

Financial highlights for the Investment Partnership for the quarter ended March 31, 2009 were as follows:

	<b>Opportunistic and Temporary Investments (Class A)</b>	<b>Co- Investments and Negotiated Equity Investments (Class B)</b>	<b>Private Equity Funds (Class C)</b>	<b>Non-Private Equity Funds (Class D)</b>	<b>Total</b>
Total return (annualized) .....	(1.8)%	11.1%	(8.0)%	(26.4)%	1.3%
Ratios to average net assets:					
Total expenses (annualized) .....	7.3	0.7	0.0	1.0	2.8
Net investment income (loss) (annualized)...	(6.6)	(0.4)	0.0	6.5	(2.2)

Financial highlights for the Investment Partnership for the quarter ended March 31, 2008 were as follows:

	<b>Opportunistic and Temporary Investments (Class A)</b>	<b>Co- Investments and Negotiated Equity Investments (Class B)</b>	<b>Private Equity Funds (Class C)</b>	<b>Non-Private Equity Funds (Class D)</b>	<b>Total</b>
Total return (annualized) .....	(28.1)%	(23.6)%	(2.3)%	(40.7)%	(21.3)%
Ratios to average net assets:					
Total expenses (annualized) .....	18.1	0.5	0.0	3.3	2.9
Net investment income (loss) (annualized)....	(15.3)	(0.4)	0.7	9.9	(1.7)

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

## 15. 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.

## 16. SUBSEQUENT EVENTS

As of April 24, 2009, KPE and the Acquirer amended the Sale Agreement to extend to August 31, 2009 from April 27, 2009 the date by which the Transaction is required to be completed before either party may, subject to certain conditions, terminate the Sale Agreement.

On April 20, 2009, Sun and Oracle Corporation ("Oracle") announced that they entered into a definitive agreement under which Oracle will acquire Sun common stock for \$9.50 per share in cash. The terms of the Investment Partnership's senior convertible notes investment in Sun provide that the Investment Partnership has the right to require Sun to purchase such senior convertible notes at par upon the consummation of a fundamental change of Sun, which the Investment Partnership believes includes the acquisition of Sun by Oracle. There can be no assurance whether or when the pending acquisition of Sun by Oracle will be consummated or whether or when such senior convertible notes will actually be repurchased. If the senior convertible notes are repurchased, the Investment Partnership's related \$350.0 million financing plus accrued interest will be also settled upon such repurchase.

Subsequent to March 31, 2009, the Investment Partnership received \$200.4 million of proceeds from the sale of certain interests in co-investments.

Subsequent to March 31, 2009, the Investment Partnership submitted subscription documents with respect to a limited partner interest in the KKR Annex Fund representing a capital commitment of \$17.6 million, which, if accepted, would reduce its commitment to the KKR European Fund III by the same amount. There can be no assurance whether or when the KKR Annex Fund will be consummated and therefore whether or when the subscription will be accepted.

Although certain segments of the global capital market have improved since December 31, 2008, worldwide economies and other segments of the global capital market remain weak and, in general, credit remains scarce and confidence in global financial systems and economic performance has not been fully restored. As a result, sources of liquidity may be more difficult to obtain in the current market environment. The state of the financial markets may impact other aspects of the business, operations, investments or prospects of the Investment partnership in ways that are currently unforeseeable.

\* \* \* \* \*

**KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL COMBINING STATEMENT OF ASSETS AND LIABILITIES (UNAUDITED)  
AS OF MARCH 31, 2009  
(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
<b>ASSETS:</b>					
Investments, at fair value:					
Co-investments in portfolio companies of private equity funds—Class B (cost of \$2,423,281) .....	\$ —	\$ 1,220,469	\$ —	\$ —	\$ 1,220,469
Negotiated equity investments—Class B (cost of \$992,582) .....	—	667,857	—	—	667,857
Private equity funds—Class C (cost of \$1,685,063) .....	—	—	1,162,992	—	1,162,992
Non-private equity fund—Class D (cost of \$133,975) .....	—	—	—	58,482	58,482
	—	1,888,326	1,162,992	58,482	3,109,800
Cash and cash equivalents.....	638,444	—	—	—	638,444
Cash and cash equivalents held by a non- private equity fund .....	—	—	—	78	78
Restricted cash .....	10,897	—	—	—	10,897
Prepaid management fees .....	4,062	—	—	—	4,062
Unrealized gain on a foreign currency exchange contract .....	—	2,586	—	—	2,586
Other assets .....	203,455	789	—	40	204,284
Total assets .....	856,858	1,891,701	1,162,992	58,600	3,970,151
<b>LIABILITIES:</b>					
Accrued liabilities .....	1,247	39,403	—	—	40,650
Due to affiliates .....	28	—	—	12	40
Unrealized loss on a foreign currency exchange contract and an interest rate swap, net .....	10,674	10,275	—	—	20,949
Other liabilities .....	—	—	—	82	82
Revolving credit agreement .....	926,193	—	—	—	926,193
Long-term debt .....	—	350,000	—	—	350,000
Total liabilities .....	938,142	399,678	—	94	1,337,914
COMMITMENTS AND CONTINGENCIES .....	—	—	—	—	—
NET ASSETS (LIABILITIES) .....	\$ (81,284)	\$ 1,492,023	\$ 1,162,992	\$ 58,506	\$ 2,632,237
<b>NET ASSETS (LIABILITIES) CONSIST OF:</b>					
Partners' capital contributions.....	\$ 38,121	\$ 3,037,100	\$ 1,586,346	\$ 175,001	\$ 4,836,568
Distributable loss .....	(119,405)	(1,545,077)	(423,354)	(116,495)	(2,204,331)
	\$ (81,284)	\$ 1,492,023	\$ 1,162,992	\$ 58,506	\$ 2,632,237

**KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL COMBINING STATEMENT OF ASSETS AND LIABILITIES (UNAUDITED)**  
**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
<b>ASSETS:</b>					
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
	<u>41,181</u>	<u>2,063,898</u>	<u>1,184,958</u>	<u>62,583</u>	<u>3,352,620</u>
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 .....	<u>688,122</u>	<u>2,068,930</u>	<u>1,184,958</u>	<u>62,714</u>	<u>4,004,724</u>
<b>LIABILITIES:</b>					
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 .....	<u>969,492</u>	<u>406,511</u>	<u>—</u>	<u>130</u>	<u>1,376,133</u>
COMMITMENTS AND CONTINGENCIES .....	—	—	—	—	—
NET ASSETS (LIABILITIES) .....	<u>\$ (281,370)</u>	<u>\$ 1,662,419</u>	<u>\$ 1,184,958</u>	<u>\$ 62,584</u>	<u>\$ 2,628,591</u>
<b>NET ASSETS (LIABILITIES) CONSIST OF:</b>					
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)
	<u>\$ (281,370)</u>	<u>\$ 1,662,419</u>	<u>\$ 1,184,958</u>	<u>\$ 62,584</u>	<u>\$ 2,628,591</u>

**KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS (UNAUDITED)  
FOR THE QUARTER ENDED MARCH 31, 2009  
(Amounts in thousands)**

	Interests				Combined Total
	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)	
INVESTMENT INCOME:					
Interest income .....	\$ 1,512	\$ 1,163	\$ —	\$ 1,121	\$ 3,796
Total investment income .....	1,512	1,163	—	1,121	3,796
EXPENSES:					
Management fees .....	8,193	—	—	39	8,232
Interest expense .....	6,723	2,684	—	37	9,444
General and administrative expenses .....	459	—	—	73	532
Total expenses .....	15,375	2,684	—	149	18,208
NET INVESTMENT INCOME (LOSS) .....	(13,863)	(1,521)	—	972	(14,412)
REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY:					
Net realized loss .....	(33,517)	(32,456)	—	(28,122)	(94,095)
Net change in unrealized appreciation (depreciation) .....	43,639	73,862	(23,420)	23,072	117,153
Net gain (loss) on investments and foreign currency transactions .....	10,122	41,406	(23,420)	(5,050)	23,058
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS .....	\$ (3,741)	\$ 39,885	\$ (23,420)	\$ (4,078)	\$ 8,646

**KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS (UNAUDITED)  
FOR THE QUARTER ENDED MARCH 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
<b>INVESTMENT INCOME:</b>					
Interest income .....	\$ 4,394	\$ 1,246	\$ 282	\$ 5,979	\$ 11,901
Dividend income, net of Class A withholding taxes of \$71 .....	166	—	3,205	—	3,371
Total investment income .....	4,560	1,246	3,487	5,979	15,272
<b>EXPENSES:</b>					
Management fees .....	12,754	—	—	653	13,407
Interest expense .....	14,854	4,134	—	652	19,640
Dividend expense .....	574	—	—	—	574
General and administrative expenses .....	1,149	—	—	192	1,341
Total expenses .....	29,331	4,134	—	1,497	34,962
NET INVESTMENT INCOME (LOSS) .....	(24,771)	(2,888)	3,487	4,482	(19,690)
<b>REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY:</b>					
Net realized gain (loss) .....	(6,517)	—	10,270	245	3,998
Net change in unrealized depreciation .....	(14,365)	(189,081)	(24,768)	(24,129)	(252,343)
Net loss on investments and foreign currency transactions .....	(20,882)	(189,081)	(14,498)	(23,884)	(248,345)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS .....	\$ (45,653)	\$ (191,969)	\$ (11,011)	\$ (19,402)	\$ (268,035)

**KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL COMBINING STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2008 AND  
THE QUARTER ENDED MARCH 31, 2009  
(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 (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
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2009:					
Net investment income (loss).....	(13,863)	(1,521)	—	972	(14,412)
Net realized loss from investments and foreign currency transactions .....	(33,517)	(32,456)	—	(28,122)	(94,095)
Net change in unrealized appreciation (depreciation) on investments and foreign currency transactions .....	43,639	73,862	(23,420)	23,072	117,153
Net increase (decrease) in net assets resulting from operations .....	(3,741)	39,885	(23,420)	(4,078)	(8,646)
Partners' capital contributions (distributions) .....	208,827	(210,281)	1,454	—	—
Fair value of distributions .....	(5,000)	—	—	—	(5,000)
INCREASE (DECREASE) IN NET ASSETS.....	200,086	(170,396)	(21,966)	(4,078)	3,646
NET ASSETS (LIABILITIES)—March 31, 2009 ....	\$ (81,284)	\$ 1,492,023	\$ 1,162,992	\$ 58,506	\$ 2,632,237

**KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES**  
**SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE QUARTER ENDED MARCH 31, 2009**  
**(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 .....	\$ (3,741)	\$ 39,885	\$ (23,420)	\$ (4,078)	\$ 8,646	
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 .....	217	—	—	—	217	
Net realized loss on investments .....	33,517	32,456	—	28,122	94,095	
Net change in unrealized depreciation (appreciation) on investments .....	(41,774)	(64,759)	23,420	(23,072)	(106,185)	
Decrease in net unrealized loss on foreign currency exchange contracts and an interest rate swap .....	(1,865)	(9,103)	—	—	(10,968)	
Changes in operating assets and liabilities:						
Purchase of securities to settle short sales .....	(1,580)	—	—	—	(1,580)	
Purchase of investments by private equity funds .....	—	—	(1,454)	—	(1,454)	
Purchase of investments by a non-private equity fund .....	—	—	—	(14,606)	(14,606)	
Proceeds from sale of opportunistic investments .....	47,519	—	—	—	47,519	
Proceeds from the termination of a transaction under a forward foreign exchange contract .....	—	7,475	—	—	7,475	
Proceeds from sale of investments a non-private equity fund .....	—	—	—	13,657	13,657	
Decrease in cash and cash equivalents held by a non-private equity fund .....	—	—	—	10	10	
Decrease in restricted cash .....	7,114	—	—	—	7,114	
Increase in prepaid management fees .....	(4,062)	—	—	—	(4,062)	
Decrease in other assets .....	2,342	1,243	—	3	3,588	
Increase in accrued liabilities .....	275	2,684	—	—	2,959	
Decrease in due to affiliates .....	(2,823)	—	—	(1)	(2,824)	
Decrease in other liabilities .....	—	—	—	(35)	(35)	
Net cash flows provided by (used in) operating activities .....	\$ 35,139	\$ 9,881	\$ (1,454)	\$ —	\$ 43,566	

Continued on the following page.



**KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES**  
**SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE QUARTER ENDED MARCH 31, 2009 (CONTINUED)**  
(Amounts in thousands)

	Interests				Combined Total
	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)	
CASH FLOWS FROM FINANCING ACTIVITIES:					
Payments on borrowings under the revolving credit agreement .....	(22,238)	—	—	—	(22,238)
Partners capital contributions (distributions) .....	8,427	(9,881)	1,454	—	—
Distributions to partners .....	(5,000)	—	—	—	(5,000)
Net cash flows provided by (used in) financing activities .....	(18,811)	(9,881)	1,454	—	(27,238)
Effect of foreign exchange rate changes on cash .....	(1,200)	—	—	—	(1,200)
NET INCREASE IN CASH AND CASH EQUIVALENTS .....	15,128	—	—	—	15,128
CASH AND CASH EQUIVALENTS— Beginning of period .....	623,316	—	—	—	623,316
CASH AND CASH EQUIVALENTS— End of period .....	\$ 638,444	\$ —	\$ —	\$ —	\$ 638,444
SUPPLEMENTAL CASH FLOW INFORMATION:					
Interest paid .....	\$ 6,111	\$ —	\$ —	\$ —	\$ 6,111
SUPPLEMENTAL NON-CASH ACTIVITIES:					
Proceeds due from the sale of co-investments .....	\$ —	\$ 200,400	\$ —	\$ —	\$ 200,400
Increase in other assets .....	(200,400)	—	—	—	(200,400)
Partners capital contributions (distributions) .....	200,400	(200,400)	—	—	—
Decrease in revolving credit agreement – foreign currency adjustments .....	(2,028)	—	—	—	(2,028)

**KKR PEI INVESTMENTS, L.P. AND SUBSIDIARIES**  
**SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE QUARTER ENDED MARCH 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.....	\$ (45,653)	\$ (191,969)	\$ (11,011)	\$ (19,402)	\$ (268,035)
Adjustments to reconcile net decrease in net assets resulting from operations to cash and cash equivalents provided by (used in) operating activities:					
Amortization of deferred financing costs.....	217	—	—	—	217
Net realized loss (gain) .....	6,517	—	(10,270)	(245)	(3,998)
Net change in unrealized depreciation on investments .....	1,408	137,880	24,768	24,129	188,185
Increase in unrealized loss on foreign currency exchange contracts and interest rate swap .....	12,957	51,201	—	—	64,158
Changes in operating assets and liabilities:					
Purchase of opportunistic investments.....	(39,514)	—	—	—	(39,514)
Purchase of securities to settle short sales .....	(117,940)	—	—	—	(117,940)
Purchase of call options .....	(4,774)	—	—	—	(4,774)
Purchase of investments by private equity funds.....	—	—	(106,059)	—	(106,059)
Purchase of investments by a non-private equity fund.....	—	—	—	(4,559)	(4,559)
Proceeds from sale of opportunistic investments .....	213,502	—	—	—	213,502
Proceeds from securities sold short, not yet purchased.....	167,358	—	—	—	167,358
Proceeds from call options written .....	1,954	—	—	—	1,954
Proceeds from sale of investments by private equity funds .....	—	—	10,270	—	10,270
Proceeds from sale of investments by a non-private equity fund.....	—	—	—	245	245
Decrease in cash and cash equivalents held by a non-private equity fund .....	—	—	—	682	682
Decrease in other assets.....	593	1,160	—	134	1,887
Increase in restricted cash.....	(30,151)	—	—	—	(30,151)
Increase in accrued liabilities.....	5,914	4,134	—	—	10,048
Decrease in due to affiliates .....	(9,104)	—	—	(981)	(10,085)
Decrease in other liabilities.....	—	—	—	(3)	(3)
Net cash flows provided by (used in) operating activities .....	\$ 163,284	\$ 2,406	\$ (92,302)	\$ —	\$ 73,388

Continued on the following page.

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

	Interests				Combined Total
	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)	
CASH FLOWS FROM FINANCING ACTIVITIES:					
Partners capital contributions (distributions) .....	(89,896)	(2,406)	92,302	—	—
Distributions to partners .....	(5,000)	—	—	—	(5,000)
Net cash flows provided by (used in) financing activities .....	(94,896)	(2,406)	92,302	—	(5,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS .....	68,388	—	—	—	68,388
CASH AND CASH EQUIVALENTS— Beginning of period .....	255,415	—	—	—	255,415
CASH AND CASH EQUIVALENTS— End of period .....	<u>\$ 323,803</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 323,803</u>
SUPPLEMENTAL CASH FLOW INFORMATION:					
Interest paid.....	\$ 16,188	\$ —	\$ —	\$ —	\$ 16,188

\* \* \* \* \*