KKR & Co. L.P.
Form S-1
May 10, 2010

Table of Contents

As filed with the Securities and Exchange Commission on May 10, 2010

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

KKR & CO. L.P.

(Exact name of Registrant as specified in its charter)

Delaware	**6282**	**26-0426107**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

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**Approximate date of commencement of the proposed sale of the securities to the public:
As soon as practicable after the Registration Statement becomes effective.**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

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

CALCULATION OF REGISTRATION FEE

Title Of Each Class Of Securities To Be Registered	**Proposed Maximum Aggregate Offering Price**	**Amount of Registration Fee**
Common Units	$500,000,000(1)(2)	$35,650

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.

(2) Includes units subject to the underwriters' option to purchase additional common units.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, MAY 10, 2010

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

Common Units

Representing Limited Partner Interests

This is an offering of our common units, which represent limited partner interests in our business. We are selling all of the common units in this offering. None of our principals is selling any common units or will otherwise receive any of the net proceeds from this offering.

Prior to this offering, there has been no U.S. public market for our common units. We expect the public offering price per common unit will be $, which is based on the last reported sale price of KKR & Co. (Guernsey) L.P., which we refer to as "KKR Guernsey", on Euronext Amsterdam by NYSE Euronext on , 2010. Prior to this offering, KKR Guernsey will have been dissolved and the KKR Guernsey units will have been delisted from Euronext Amsterdam. We intend to list our common units on the New York Stock Exchange under the symbol "KKR".

Investing in our common units involves a high degree of risk. See "Risk Factors" beginning on page 16 of this prospectus. These risks include the following:

- We are managed by a general partner, which we refer to as our Managing Partner, and do not have our own directors or officers. Our unitholders will have only limited voting rights and will have no right to elect or remove our Managing Partner or its directors or officers, and our Managing Partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its fiduciary duties to us. Through KKR Holdings, our principals generally have sufficient voting power to determine the outcome of any matters that may be submitted for a vote of our unitholders.

- We believe that we will be treated as a partnership for U.S. federal income tax purposes and you therefore will be required to take into account your allocable share of items of our income, gain, loss and deduction in computing your U.S. federal income tax liability. You may not receive sufficient cash distributions to pay your allocable share of our net taxable income or even the tax liability that results from that income.

- As a limited partnership, we will rely on exceptions from certain corporate governance requirements of the New York Stock Exchange, including the requirement to have a nominating and corporate governance committee composed entirely of independent directors and the requirement to have a compensation committee. You will not have the same protections afforded to equity holders of entities that are subject to all of the corporate governance requirements of the New York Stock Exchange.

- Various forms of legislation have been introduced that could, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes under the rules governing publicly traded partnerships and could require that we be treated as a corporation for U.S. federal income tax purposes. If the above or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units.

	Per Common Unit	Total
Offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$

To the extent that the underwriters sell more than common units, the underwriters have the option to purchase up to an additional common units from us at the initial public offering price less the underwriting discount.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the common units to purchasers on or about , 2010.

The date of this prospectus is , 2010.

Table of Contents

Our Assets Under Management(*)

(*) Assets under management are presented pro forma for the Combination Transaction (as defined herein) and, therefore, exclude the net asset value of KKR Guernsey and its commitments to our investment funds.

TABLE OF CONTENTS

	Page
Summary	1
Risk Factors	16
Risks Related to Our Business	16
Risks Related to the Assets We Manage	31
Risks Related to this Offering and Our Common Units	42
Risks Related to Our Organizational Structure	47
Risks Related to U.S. Taxation	53
Use of Proceeds	58
Distribution Policy	59
Capitalization	61
Dilution	62
Organizational Structure	64
Unaudited Pro Forma Financial Information	71
Selected Historical Financial and Other Data	88
Management's Discussion and Analysis of Financial Condition and Results of Operations	90
Business	140
Management	167
Security Ownership	176
Certain Relationships and Related Party Transactions	178
Conflicts of Interest and Fiduciary Responsibilities	186
Description of Our Common Units	192
Description of Our Limited Partnership Agreement	193
Common Units Eligible for Future Sale	204
Material U.S. Federal Tax Considerations	207
Underwriting	224
Legal Matters	231
Experts	231
Where You Can Find More Information	232
Index to Financial Statements	F-1

You should rely only on the information contained in this prospectus or any free writing prospectus. We have not authorized anyone to provide you with additional or different information. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any distribution of our common units.

This prospectus has been prepared using a number of conventions, which you should consider when reading the information contained herein. Unless the context suggests otherwise:

(i) references to "KKR," "we," "us," "our" and "our partnership" refer to KKR & Co. L.P. and its subsidiaries;

(ii) references to "our Managing Partner" are to KKR Management LLC, which acts as our general partner;

(iii) references to "KKR Guernsey" are to KKR & Co. (Guernsey) L.P. (f/k/a KKR Private Equity Investors, L.P. or "KPE");

(iv) references to the "Combined Business" of KKR refer to the business of KKR that resulted from the combination of its asset management business with the assets and liabilities of KKR Guernsey on October 1, 2009;

(v) references to the "KKR Group Partnerships" are to KKR Management Holdings L.P. and KKR Fund Holdings L.P., which became holding companies for the Combined Business on October 1, 2009; and

(vi) references to the "KPE Investment Partnership" are to KKR PEI Investments, L.P., a lower tier partnership through which KPE made all of its investments.

Prior to this offering, we will have registered the distribution of 204,902,226 common units representing limited partner interests in our business to holders of common units of KKR Guernsey and list such common units on the New York Stock Exchange under the symbol "KKR". We refer to the distribution of our common units to holders of KKR Guernsey units as the "In-Kind Distribution" and to the listing of our common units on the New York Stock Exchange as the "U.S. Listing." We refer to the In-Kind Distribution, U.S. Listing and this offering collectively as the "Offering Transactions."

Unless otherwise indicated, references to equity interests in the Combined Business, or to percentage interests in the Combined Business, reflect the aggregate equity of the KKR Group Partnerships and are net of amounts that have been allocated to our principals in respect of the carried interest from the Combined Business as part of our "carry pool" and certain minority interests in our business that were not acquired by the KKR Group Partnerships in connection with our reorganization into a holding company structure and our acquisition of the assets and liabilities of KKR Guernsey. See "Organizational Structure" and "Management's Discussion and Analysis of Financial Condition and Results of Operations Impact of the Transactions." References to our "principals" are to our senior executives and operating consultants who hold interests in the Combined Business through KKR Holdings and references to our "senior principals" are to principals who also hold interests in our Managing Partner entitling them to vote for the election of its directors.

On October 1, 2009, we completed the acquisition of all of the assets and liabilities of KKR Guernsey and, in connection with such acquisition, completed a series of transactions pursuant to which the business of KKR was reorganized into a holding company structure. We refer to the acquisition of the assets and liabilities of KKR Guernsey as the "Combination Transaction," to our reorganization into a holding company structure as the "Reorganization Transactions" and to the Combination Transaction and the Reorganization Transactions collectively as the "Transactions." Our financial information for periods prior to the Transactions is based on a group, for accounting purposes, of certain combined and consolidated entities under common control of our senior principals and under the common ownership of our principals and certain other individuals who have been involved in our business, and our financial information for periods subsequent to the Transactions is based on a group, for accounting purposes, consisting of KKR & Co. L.P. and its consolidated subsidiaries.

KKR Group Holdings L.P., which we refer to as "Group Holdings," is the parent of our consolidated accounting group for periods subsequent to October 1, 2009 and is the entity through which KKR Guernsey currently holds its interests in the KKR Group Partnerships. Group Holdings serves, directly and indirectly, as the general partner of the KKR Group Partnerships. Our Managing Partner serves as the ultimate general partner of Group Holdings and the KKR Group Partnerships. Prior to this offering, KKR Guernsey, through its interest in Group Holdings, holds 30% of the outstanding KKR Group Partnership Units. Pursuant to the U.S. Listing and the In-Kind Distribution, KKR Guernsey will have contributed its interests in KKR's business to KKR & Co. L.P. in exchange for our common units, KKR Guernsey will have been dissolved, and KKR & Co. L.P. will hold the number of KKR Group Partnership Units previously held by KKR Guernsey. See "Summary The Offering KKR Group Partnership Units."

In this prospectus, the terms "assets under management" or "AUM" represent the assets from which we are entitled to receive fee income or a carried interest and general partner capital. We calculate the amount of AUM as of any date as the sum of:

(i) the fair value of the investments of our investment funds plus uncalled capital commitments from these funds;

(ii) the fair value of investments in our co-investment vehicles;

(iii) the net asset value of certain of our fixed income products; and

(iv) the value of outstanding structured finance vehicles.

You should note that our calculation of AUM may differ from the calculations of other asset managers and, as a result, our measurements of AUM may not be comparable to similar measures presented by other asset managers. Our definition of AUM is not based on any definition of AUM that is set forth in the agreements governing the investment funds, vehicles or accounts that we manage.

In this prospectus, the terms "fee paying assets under management" or "FPAUM" represent only those assets under management from which we receive fees. FPAUM is the sum of all of the individual fee bases that are used to calculate our fees and differs from AUM in the following respects: (i) assets from which we do not receive a fee are excluded (i.e., assets with respect to which we receive only carried interest); and (ii) certain assets, primarily in our private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments.

Unless otherwise indicated, references in this prospectus to our fully diluted common units outstanding, or to our common units outstanding on a fully diluted basis, reflect both actual common units outstanding as well as common units into which KKR Group Partnership Units not held by us are exchangeable pursuant to the terms of the exchange agreement described in this prospectus, but do not reflect common units available for issuance pursuant to our Equity Incentive Plan.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as "outlook," "believe," "expect," "potential," "continue," "may," "should," "seek," "approximately," "predict," "intend," "will," "plan," "estimate," "anticipate" or the negative version of these words or other comparable words. Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. These factors include, but are not limited to, those described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

MARKET AND INDUSTRY DATA

This prospectus includes market and industry data and forecasts that we have derived from independent reports, publicly available information, various industry publications, other published industry sources and internal data and estimates. Independent reports, industry publications and other published industry sources generally indicate that the information contained therein was obtained from sources believed to be reliable. Internal data and estimates are based upon information obtained from investors in our funds, trade and business organizations and other contacts in the markets in which we operate and our understanding of industry conditions. Although we believe that such information is reliable, we have not had this information verified by any independent sources.

SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all the information you should consider in connection with your purchase of our common units. You should read this entire prospectus carefully, including the section entitled "Risk Factors" and the historical financial statements and related notes included elsewhere herein.

Overview

KKR

Led by Henry Kravis and George Roberts, we are a global alternative asset manager with $52.2 billion in AUM as of December 31, 2009 and a 34-year history of leadership, innovation and investment excellence. When our founders started our firm in 1976, they established the principles that guide our business approach today, including a patient and disciplined investment process; the alignment of our interests with those of our investors, portfolio companies and other stakeholders; and a focus on attracting world-class talent.

Our business offers a broad range of asset management services to our investors and provides capital markets services to our firm, our portfolio companies and our clients. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 170 private equity investments with a total transaction value in excess of $425 billion. In recent years, we have grown our firm by expanding our geographical presence and building businesses in new areas, such as fixed income and capital markets. Our new efforts build on our core principles, leverage synergies in our business, and allow us to capitalize on a broader range of opportunities that we source. Additionally, we have increased our focus on servicing our existing investors and have invested meaningfully in developing relationships with new investors.

With over 600 people, we conduct our business through 14 offices on four continents, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. We have grown our AUM significantly, from $15.1 billion as of December 31, 2004 to $52.2 billion as of December 31, 2009, representing a compounded annual growth rate of 28.1%. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

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

On October 1, 2009, we completed our acquisition of all of the assets and liabilities of KPE and our Combined Business became listed on Euronext Amsterdam. This acquisition, which we refer to as the Combination Transaction, has provided us with a significant source of permanent capital to further grow our business and an equity currency that we may use to attract, retain and incentivize our employees and to fund opportunistic acquisitions. The Combination Transaction did not involve the payment of any cash consideration or involve an offering of any newly issued securities to the public, and our principals did not sell any interests in our Combined Business. Following the Combination Transaction, we operate our business through three business segments: Private Markets; Public Markets; and Capital Markets and Principal Activities.

Business Segments

Private Markets

Our Private Markets segment is comprised of our global private equity business, which manages and sponsors a group of investment funds and vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. These funds and vehicles build on our sourcing advantage and the strong industry knowledge, operating expertise and regulatory and stakeholder management skills of our professionals, operating consultants and senior advisors to identify attractive investment opportunities and create and realize value for investors.

From our inception through December 31, 2009, we have raised 15 private equity funds with approximately $59.7 billion of capital commitments and have sponsored a number of fee and carry paying co-investment structures that allow us to commit additional capital to transactions. We have grown our AUM in this segment significantly in recent years, from $14.4 billion as of December 31, 2004 to $38.8 billion as of December 31, 2009, representing a compound annual growth rate of 22.0%. As of December 31, 2009, we had $13.7 billion of uncalled commitments to investment funds and vehicles in this segment, providing a significant source of capital that may be deployed globally.

We generate income in our Private Markets segment from the management fees and carried interest that we receive from the funds and vehicles that we manage, as well as the monitoring fees and transaction fees that are paid by portfolio companies. During the year ended December 31, 2009, the segment generated $240.1 million of fee related earnings and $1,113.6 million of economic net income, representing 89% and 75% of our total segment amounts, respectively.

Public Markets

Our Public Markets segment is comprised primarily of our fixed income businesses which manage capital in liquid credit strategies, such as leveraged loans and high yield bonds, and less liquid credit products, such as mezzanine debt, special situation assets, rescue financings, distressed assets, debtor-in-possession financings and exit financings. We implement these investment strategies through a specialty finance company and a number of investment funds, structured finance vehicles and separately managed accounts. These sources of capital leverage our global investment platform, experienced investment professionals and ability to adapt our investment strategies to different market conditions to capitalize on investment opportunities that may arise at every level of the capital structure.

We have grown our AUM in this segment significantly in recent years, from $3.7 billion as of December 31, 2005, the first full year of operations, to $13.4 billion as of December 31, 2009, representing a compound annual growth rate of 38.3%. As of December 31, 2009, the segment's AUM was comprised of $0.9 billion of assets managed in a publicly traded specialty finance company, $8.1 billion of assets managed in structured finance vehicles and $4.4 billion of assets managed in other types of investment vehicles and separately managed accounts. This AUM included $0.8 billion of uncalled commitments.

We generate income in our Public Markets segment from the management fees, incentive fees and carried interest that we receive from the companies, funds, accounts and vehicles that we manage, as well as transaction fees that may be paid by issuers in connection with specific investments. During the year ended December 31, 2009, the segment generated $10.6 million of fee related earnings and $5.3 million of economic net income, representing 4% and less than one percent of our total segment amounts, respectively.

Capital Markets and Principal Activities

Our Capital Markets and Principal Activities segment combines the assets we acquired in the Combination Transaction with our global capital markets business. Our capital markets business supports our firm, our portfolio companies and our clients by providing services such as arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets advice. To allow us to carry out these activities, we are registered or authorized to carry out certain broker-dealer activities in various countries in North America, Europe and Asia.

The assets that we acquired in the Combination Transaction have provided us with a significant source of capital to further grow and expand our business, increase our participation in our existing portfolio of businesses and further align our interests with those of our investors and other stakeholders. We believe that the market experience and skills of our capital markets professionals and the investment expertise of professionals in our Private Markets and Public Markets segments will allow us to continue to grow and diversify this asset base over time.

We generate income in our Capital Markets and Principal Activities segment from the fees that we generate through our capital markets transactions as well as the returns on the assets that we own as a principal. During the year ended December 31, 2009, the segment generated $18.7 million of fee related earnings and $367.8 million of economic net income, representing 7% and 25% of our total segment amounts, respectively.

Strengths

Over our history, we have developed a business approach that centers around three key principles:

(i) adhere to a patient and disciplined investment process;

(ii) align our interests with those of our investors and other stakeholders; and

(iii) attract world-class talent for our firm and portfolio companies.

Based on these principles, we have developed a number of strengths that we believe differentiate us as an alternative asset manager and provide additional competitive advantages that can be leveraged to grow our business and create value. These include:

Firm Culture and People

When our founders started our firm in 1976, leveraged buyouts were a novel form of corporate finance. With no financial services firm to use as a model and little interest in copying an existing formula, our founders sought to build a firm based on principles and values that would provide a proper institutional foundation for years to come. We believe that our success and industry leadership has been largely attributable to the culture of our firm and the values we live by. We believe that our experienced and talented people, who represent our culture and values, have been the key to our success and growth. These values and our "one firm" culture will not change as a result of this offering.

Leading Brand Name

The "KKR" name is associated with: experience and success in private equity transactions worldwide; a focus on operational value creation in portfolio companies; a strong investor base; a global network of leading business relationships; a reputation for integrity and fair dealing; creativity and innovation; and superior investment performance. The strength of our brand helps us attract world-class talent, raise capital and obtain access to investment opportunities. We intend to leverage this strength as we continue to grow and expand our businesses.

Global Presence and Integrated One Firm Approach

We are a global firm. Although our operations span multiple continents and business lines, we have a common culture and are focused on sharing knowledge, resources and best practices throughout our offices and across asset classes. Our global and diversified operations are also supported by extensive local market knowledge, which provides an advantage for sourcing investments, consummating transactions and raising capital. As of December 31, 2009, 64% of our employees were based in North America, 19% were based in Europe and the Middle East, and 17% were based in Asia and Australia.

Sourcing Advantage

We believe that we have a competitive advantage for sourcing new investment opportunities as a result of our internal deal generation strategies, industry expertise and global network. Across our businesses, our investment professionals are organized into industry groups and work closely with our operating consultants and senior advisors to identify attractive businesses. These teams conduct their own primary research, develop views on industry themes and trends, and identify companies in which we may want to invest. They also maintain relationships with various industry players providing additional access to deal flow. Through our industry focus and global network, we often are able to obtain exclusive or limited access to investments that we identify.

Distinguished Track Record Across Economic Cycles

We have successfully employed our patient and disciplined investment process through all types of economic and financial conditions, developing a track record that distinguishes the firm. From our inception through December 31, 2009, our private equity funds with at least 36 months of investment activity generated a cumulative gross IRR of 25.8%, compared to the 11.5% gross IRR achieved by the S&P 500 Index over the same period. Additionally, we established our fixed income business in 2004 and, despite difficult market conditions, the returns in each of our core strategies since inception have outperformed relevant benchmarks.

Sizeable Long-Term Capital Base

As of December 31, 2009, we had $52.2 billion of AUM, making us one of the largest independent alternative asset managers in the world. Our private equity funds typically have six year investment periods and may hold an investment for a period of up to 12 years from the acquisition date. We also manage a specialty finance company and various structured finance vehicles that have capital that is either long-dated or has no fixed maturity. As of December 31, 2009, approximately 93%, or $48.6 billion, of our AUM had a contractual life at inception of at least 10 years, which has provided a stable source of long-term capital for our business.

Long-Standing Investor Relationships

We have established strong relationships with a diversified group of investors, including some of the largest public and private pension plans, global financial institutions, university endowments and other institutional and public market investors. Many of these investors have invested with us for decades in various products that we have sponsored. We continue to develop relationships with new significant investors worldwide, providing an additional source of capital for our investment vehicles. We believe that the strength, breadth, duration and diversity of our investor relationships provides a significant advantage for raising capital and growing our business.

Alignment of Interests

Since our inception, one of our fundamental philosophies has been to align the interests of the firm and our people with the interests of our investors, portfolio companies and other stakeholders. We achieve this by putting our own capital behind our ideas. We and our principals have over $6.5 billion invested in or committed to our own funds and portfolio companies, including $4.2 billion funded through our balance sheet, $1.3 billion of additional commitments to investment funds and $1.0 billion in personal investments.

Creativity and Innovation

We pioneered the development of the leveraged buyout and have worked throughout our history to create new and innovative structures for both raising capital and making investments. Our history of innovation includes establishing permanent capital vehicles for our Public Markets and Private Markets segments and developing new capital markets and distribution capabilities in North America, Europe and Asia.

Growth Strategy

We intend to grow our business and create value for our common unitholders by:

- generating superior returns on assets that we manage and our principal assets;
- growing our assets under management;
- entering new businesses and creating new products that leverage our core competencies;
- continuing our expansion into new geographies with respect to both investing and raising capital;
- expanding our capital markets business; and
- using our principal assets to grow and invest in our business.

The U.S. Listing and In-Kind Distribution

Immediately prior to this offering, KKR Guernsey will have made an in-kind distribution of 204,902,226 common units to holders of KKR Guernsey units in connection with the U.S. Listing. Each KKR Guernsey unitholder will have received one of our common units for each unit of KKR Guernsey held when the U.S. Listing becomes effective. Because the assets of KKR Guernsey consist solely of its interests in our business, the In-Kind Distribution will have resulted in the dissolution of KKR Guernsey and a delisting of its units from Euronext Amsterdam. We refer to the In-Kind Distribution, U.S. Listing and this offering collectively as the "Offering Transactions".

As soon as practicable following the date on which the registration statement for the in-kind distribution of our 204,902,226 common units to holders of common units of KKR Guernsey is declared effective and our common units have been approved for listing and trading on the New York Stock Exchange, subject in each case to applicable laws, rules and regulations, KKR Guernsey units will be delisted at the end of a trading day on Euronext Amsterdam, and, immediately prior to this offering, the listing of our common units will occur at the beginning of the immediately following trading day on the New York Stock Exchange.

The Combination Transaction and Reorganization Transactions

On October 1, 2009, we completed the acquisition of all of the assets and liabilities of KKR Guernsey in the Combination Transaction. We agreed to the Combination Transaction in order to:

- create a diversified business that would benefit from the diversity, global presence, income streams, scale and franchise of KKR and the significant capital of KPE;

- provide a means for further aligning the interests of KKR's owners and KKR Guernsey unitholders by providing them equity interests in a common business that would allow them to share in the same income streams, asset base and growth potential;

- enhance access to capital markets and create a new currency for attracting and incentivizing world-class people and opportunistically funding acquisitions and growth opportunities.

Because the business of KKR prior to the Combination Transaction was conducted through a number of separate entities, we completed a series of transactions immediately prior to the Combination Transaction in which these separate entities were reorganized into a holding company structure. The purposes of the Reorganization Transactions was to create an integrated structure that could hold the interests in KKR's asset management business and the assets and liabilities of KKR Guernsey and issue common equity representing an interest in the Combined Business.

We refer to the Reorganization Transactions and the Combination Transaction collectively as the Transactions. Following the Transactions, KKR Guernsey held a 30% economic interest in our Combined Business through Group Holdings, and our principals held a 70% economic interest in our Combined Business through KKR Holdings. Through KKR Holdings, our principals will further hold special voting units in our partnership that will enable them to vote alongside our common unitholders in proportion to their interests in the Combined Business with respect to any matters that are submitted to a vote of our common unitholders.

As is commonly the case with limited partnerships, our limited partnership agreement provides for the management of our business and affairs by a general partner rather than a board of directors. Our Managing Partner serves as our general partner and has a board of directors that is co-chaired by our founders, Henry Kravis and George Roberts, who also serve as our Co-Chief Executives. Our senior principals control our Managing Partner and you will not hold securities of our Managing Partner and will not be entitled to vote in the election of its directors or other matters affecting its governance. For a description of the Combination Transaction, the Reorganization Transactions, the components of our business owned by the KKR Group Partnerships and a diagram illustrating our ownership and organizational structure giving effect to the Offering Transactions, see "Organizational Structure."

Risks Related to Our Common Units

Holding our common units involves substantial risks and uncertainties. Some of the more significant challenges and risks related to our common units include:

- our business is materially affected by conditions in the financial markets and economic conditions, and recent disruptions in the global financial markets, including considerable declines in the valuations of debt and equity securities, have negatively impacted our financial performance, increased the cost of financing leveraged buyout transactions and limited the availability of that financing;

- we are dependent on our principals, including our founders and other key personnel;

- our net income and cash flow are volatile;

- any underperformance of our investments could adversely affect our ability to maintain or grow our AUM;

- our unitholders have limited ability to influence decisions regarding our business;

- our business is subject to extensive regulation and scrutiny, which may make our business more difficult to operate;

- the valuation methodologies for certain assets in our funds are subject to significant management judgment;

Table of Contents

- our organizational structure may give rise to the potential for conflicts of interest among our Managing Partner, its affiliates and us;
- many of our funds focus on illiquid investments;
- there is no established trading market for our common units in the United States;
- we may be subject to substantial litigation and as a result incur significant liabilities and suffer damage to our professional reputation;
- you may be required to make tax payments in connection with your ownership of our common units in excess of the cash distributions you receive in any specific year;
- our emphasis on private equity investments, which are among the largest in the industry, involve particular risks and uncertainties; and
- our investments in companies that are based outside of the United States present potentially greater risks than similar investments in the United States.

In addition, legislation has been introduced that would tax as a corporation a publicly traded partnership, such as us, that directly or indirectly derives income from investment advisor or asset management services. Separately, legislation has been passed in the U.S. House of Representatives that would generally

- treat carried interest as non-qualifying income under the tax rules applicable to publicly traded partnerships, which could preclude us from qualifying as a partnership for U.S. federal income tax purposes; and
- tax carried interest as ordinary income for U.S. federal income taxes, which could require us to hold our interest in carried interest through taxable subsidiary corporations.

If any of these pieces of legislation or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability, which could result in a reduction in the value of our common units. Please see "Risk Factors" for a discussion of these and additional factors related to our common units.

Table of Contents

The Offering

Common units offered by us	common units.
Common units to be outstanding after this offering	common units (or common units on a fully diluted basis) or common units (or common units on a fully diluted basis) if the underwriters exercise in full their option to purchase additional common units from us.
Use of proceeds	We estimate that we will receive approximately $ of net proceeds from this offering after deducting estimated underwriting discounts and offering expenses, or $ if the underwriters exercise in full their option to purchase an additional common units from us (based on the estimated public offering price set forth on the cover page of this prospectus). We intend to contribute the net proceeds we receive from the offering to the KKR Group Partnerships in exchange for newly issued units in the KKR Group Partnerships. The KKR Group Partnerships are expected to use the proceeds they receive from us: to fund the continued growth of our existing asset management business, including through funding our general partner capital commitments to our funds; to provide capital to support the continued development of our capital markets business; to facilitate our expansion into complementary lines of business, including possibly through select strategic acquisitions; and for other general corporate purposes. Pending the specific deployment of these proceeds, we expect to deploy the proceeds from this offering primarily in lower risk assets and cash. None of our principals are selling any common units or will otherwise receive any of the net proceeds from this offering.
Common units	Our common units represent limited partner interests in our partnership. The remaining common units are beneficially held by our principals through KKR Holdings in the form of exchangeable KKR Group Partnership Units as described below. See "KKR Group Partnership Units." On a fully diluted basis, we have an aggregate of common units outstanding.
KKR Group Partnership Units	In October 2009, our Combined Business was reorganized under the KKR Group Partnerships. Each KKR Group Partnership has an identical number of partner interests and, when held together, one Class A partner interest in each of the KKR Group Partnerships together represents one "KKR Group Partnership Unit." Upon completion of the U.S.

Table of Contents

	Listing and In-Kind Distribution, we will hold KKR Group Partnership Units and our principals will hold KKR Group Partnership Units through their interests in KKR Holdings. KKR Group Partnership Units that are held by KKR Holdings are exchangeable for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance with applicable lock-up, vesting and transfer restrictions. See " Exchange Rights."
Voting Rights; Special Voting Units	Our Managing Partner, which serves as our sole general partner, will manage all of our business and affairs. You will not hold securities of our Managing Partner. Unlike the holders of common stock in a corporation, you will have only limited voting rights relating to certain matters affecting your investment and you will not have the right to elect or remove our Managing Partner or its directors, who will be appointed by our senior principals. Through KKR Holdings, our principals will hold special voting units in our partnership in an amount that is equal to the number of exchangeable KKR Group Partnership Units that KKR Holdings holds from time to time. These special voting units will entitle our principals to cast an equivalent number of votes on those few matters that may be submitted to a vote of our unitholders. Due to the foregoing, our principals generally will have sufficient voting power to determine the outcome of any matter that may be submitted to a unitholder vote. See "Description of Our Limited Partnership Agreement Meetings; Voting."
Distribution Policy	We intend to make quarterly cash distributions in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of our asset management business in excess of amounts determined by our Managing Partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our investment funds and to comply with applicable law and any of our debt instruments or other agreements. We do not intend to distribute gains on our principal assets, other than potentially certain tax distributions to the extent that distributions for the relevant tax year were otherwise insufficient to cover certain tax liabilities of our partners, as calculated by us. For the purposes of our distribution policy, our distributions are expected to consist of: our fee related earnings net of taxes and certain other adjustments; carry distributions received from our investment funds and certain of our other vehicles that have not been allocated as part of our carry pool; and certain tax distributions, if any.

Table of Contents

	See "Distribution Policy."
Exchange Rights	We are party to an exchange agreement pursuant to which KKR Holdings may, up to four times each year, exchange KKR Group Partnership Units held by them for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance with applicable lock-up, vesting and transfer restrictions. At the election of our partnership and KKR Management Holdings Corp., as the general partners of the KKR Group Partnerships, the KKR Group Partnerships may settle exchanges of KKR Group Partnership Units with cash in an amount equal to the fair market value of our common units that would otherwise be deliverable in such exchanges. If an election is made to settle an exchange of KKR Group Partnership Units with cash, the KKR Group Partnerships will cancel the KKR Group Partnership Units that are acquired in the exchange, which will result in a corresponding reduction in the number of fully diluted common units and special voting units that we have outstanding following the exchange. As a result of the cancellation of the KKR Group Partnership Units that are acquired in the exchange, our percentage ownership of the KKR Group Partnerships will increase and KKR Holdings' percentage ownership will decrease. See "Organizational Structure Exchange Agreement" and "Certain Relationships and Related Transactions Exchange Agreement."
Tax Receivable Agreement	When KKR Holdings or its transferees transfers their interests in us, we expect, as a result, an increase in the tax basis of certain of our assets that would not otherwise have been available to us. This increase in tax basis may increase depreciation and amortization deductions for U.S. federal income tax purposes and therefore reduce the amount of tax that our corporate subsidiary would otherwise be required to pay in the future. We have entered into a tax receivable agreement with KKR Holdings pursuant to which we will be required

to pay to KKR Holdings or its transferees 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we actually realize as a result of tax benefits resulting from certain exchanges made pursuant to our exchange agreement with KKR Holdings, as well as 85% of the amount of any such savings we actually realize as a result of increases in tax basis that arise due to payments under the tax receivable agreement. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. In the event that other of our current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if we become

Table of Contents

	taxable as a corporation for U.S. federal income tax purposes, each will become subject to a tax receivable agreement with substantially similar terms. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement." Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, neither KKR Holdings nor its transferees will reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase, or the benefits of such increases, were successfully challenged by the IRS. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement."
NYSE symbol	We intend to list our common units on the NYSE under the symbol "KKR."
Risk factors	See "Risk Factors" for a discussion of risks you should carefully consider in connection with our common units.

In this prospectus, unless otherwise indicated, the number of fully diluted common units outstanding and other information that is based thereon does not reflect:

- common units that are issuable upon exercise of the underwriters' option to purchase additional common units from us; and

- 102,451,113 additional common units that have been reserved for future issuance under our Equity Incentive Plan.

The issuance of common units pursuant to awards under the Equity Incentive Plan or pursuant to the underwriters' option to purchase additional common units would dilute common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR Group Partnerships.

KKR & Co. L.P. was formed as a Delaware limited partnership on June 25, 2007. Our Managing Partner was formed as a Delaware limited liability company on June 25, 2007. Our principal executive offices are located at 9 West 57th Street, Suite 4200, New York, New York 10019, and our telephone number is +1 (212) 750-8300. Our website is located at *www.kkr.com*.

Table of Contents

Summary Historical Financial Data

The following summary historical consolidated and combined financial information, unaudited pro forma information and other data of KKR should be read together with "Organizational Structure," "Unaudited Pro Forma Financial Information," "Selected Historical Financial and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated and combined financial statements and related notes included elsewhere in this prospectus. We derived the summary historical consolidated and combined financial data as of December 31, 2008 and 2009 and for the years ended December 31, 2007, 2008 and 2009 from the audited consolidated and combined financial statements included elsewhere in this prospectus. We derived the summary historical consolidated and combined financial data as of December 31, 2007 from audited combined financial statements that are not included in this prospectus. The unaudited pro forma financial information was prepared on substantially the same basis as the audited consolidated and combined financial statements and includes all adjustments that we consider necessary for a fair presentation of our consolidated and combined pro forma financial information as if the Transactions and certain other arrangements occurred on January 1, 2009. Because the Transactions and related arrangements were completed on October 1, 2009, their impact is fully reflected in our statement of financial condition as of December 31, 2009. Accordingly, we have not included a pro forma statement of financial condition. The summary historical consolidated and combined financial information presented below reflects the economic impact of the Transactions for periods following October 1, 2009.

	For the Years Ended December 31,			Pro Forma(1)
	2007	2008	2009	2009
Statement of Operations Data:				
Revenues				
Fees	$ 862,265	$ 235,181	$ 331,271	$ 334,377
Expenses				
Employee Compensation and Benefits(2)	212,766	149,182	838,072	1,089,347
Occupancy and Related Charges	20,068	30,430	38,013	38,013
General, Administrative and Other(2)	128,036	179,673	264,396	230,203
Fund Expenses	80,040	59,103	55,229	56,383
Total Expenses	440,910	418,388	1,195,710	1,413,946
Investment Income (Loss)				
Net Gains (Losses) from Investment Activities	1,111,572	(12,944,720)	7,505,005	7,153,044
Dividend Income	747,544	75,441	186,324	168,473
Interest Income	218,920	129,601	142,117	139,074
Interest Expense	(86,253)	(125,561)	(79,638)	(79,638)
Total Investment Income (Loss)	1,991,783	(12,865,239)	7,753,808	7,380,953
Income (Loss) Before Taxes	2,413,138	(13,048,446)	6,889,369	6,301,384
Income Taxes(3)	12,064	6,786	36,998	83,464
Net Income (Loss)	2,401,074	(13,055,232)	6,852,371	6,217,920
Less: Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities	1,598,310	(11,850,761)	6,119,382	5,195,086
Less: Net Income (Loss) Attributable to Noncontrolling Interests Held by KKR Holdings			(116,696)	770,204
Net Income (Loss) Attributable to Group Holdings(4)	$ 802,764	$ (1,204,471)	$ 849,685	$ 252,630

Table of Contents

	December 31, 2007	December 31, 2008	December 31, 2009	Pro-Forma December 31, 2009
Statement of Financial Condition Data (period end):				
Total assets	$ 32,842,796	$ 22,441,030	$ 30,221,111	
Total liabilities	$ 2,575,636	$ 2,590,673	$ 2,859,630	
Noncontrolling interests in consolidated entities	$ 28,749,814	$ 19,698,478	$ 23,275,272	
Noncontrolling interests attributable to KKR Holdings	$	$	$ 3,072,360	
Total Group Holdings partners' capital(5)	$ 1,517,346	$ 151,879	$ 1,013,849	
Segment Data(6):				
Fee related earnings(7)				
Private Markets	$ 416,387	$ 156,152	$ 240,091	$ 216,952
Public Markets	$ 48,072	$ 32,576	$ 10,554	$ 11,812
Capital Markets and Principal Activities	$	$ 5,297	$ 18,653	$ 18,653
Economic net income(8)				
Private Markets	$ 775,014	$ (1,233,521)	$ 1,113,624	$ 661,480
Public Markets	$ 39,814	$ 36,842	$ 5,279	$ 6,444
Capital Markets and Principal Activities	$	$ 1,205	$ 367,751	$ 1,286,020
Partners' capital(5)				
Private Markets	$ 1,499,321	$ 97,249	$ 277,062	$ 277,062
Public Markets	$ 18,025	$ 45,867	$ 49,581	$ 49,581
Capital Markets and Principal Activities	$	$ 10,974	$ 3,826,241	$ 3,826,241
Other Data:				
Assets under management (period end)(9)	$ 53,215,700	$ 48,450,700	$ 52,204,200	$ 52,204,200
Fee paying assets under management (period end)(10)	$ 39,862,168	$ 43,411,800	$ 42,779,800	$ 42,779,800
Committed dollars invested(11)	$ 14,854,200	$ 3,168,800	$ 2,107,700	$ 2,107,700
Uncalled commitments (period end)(12)	$ 11,530,417	$ 14,930,142	$ 14,544,427	$ 14,544,427

(1) The financial information reported for periods prior to October 1, 2009 did not give effect to the Transactions. The unaudited pro forma financial information gives effect to the Transactions and certain other arrangements entered into in connection with the Transactions as if the Transactions and such arrangements had been completed as of January 1, 2009. See "Unaudited Pro Forma Financial Information"

(2) Includes non-cash charges arising from the issuance and vesting of interests in KKR Holdings upon and following the completion of the Transactions on October 1, 2009 in the amounts of $481.4 million recorded in employee compensation and benefits expense and $81.0 million recorded in general, administrative and other expense. In addition, allocations to our carry pool resulted in $163.1 million recorded in employee compensation and benefits expense and $4.1 million recorded in general, administrative and other expense.

(3) Prior to the Transactions, most of the entities in our consolidated group were taxed as partnerships and our income was generally allocated to, and the resulting tax liability generally was borne by, our principals at an individual level. Accordingly, the taxes they paid are not reflected in our consolidated and combined financial statements. Following the Transactions, certain of our income will be subject to corporate tax.

(4) Subsequent to the Transactions, net income (loss) attributable to Group Holdings reflects only those amounts that are allocable to KKR Guernsey's 30% interest in our Combined Business. Net

Table of Contents

Income (Loss) that is allocable to our principals' 70% interest in our Combined Business is reflected in net income (loss) attributable to noncontrolling interests held by KKR Holdings.

(5)

As of December 31, 2009, total Group Holdings partners' capital reflects only the portion of equity attributable to Group Holdings (reflecting KKR Guernsey's 30% interest in our Combined Business) and differs from partners' capital reported on a segment basis primarily as a result of the exclusion of the following items from our segment presentation: (i) the impact of income taxes; (ii) charges relating to the amortization of intangible assets; (iii) non-cash equity based charges; and (iv) allocations of equity to KKR Holdings. For a reconciliation to the $4,152.9 million of partners' capital reported on a segment basis, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Segment Partners' Capital." KKR Holdings' 70% interest in our Combined Business is reflected as noncontrolling interests held by KKR Holdings and is not included in total Group Holdings partners' capital.

(6)

Our Capital Markets and Principal Activities segment was formed by combining the assets we acquired in the Combination Transaction with our global capital markets business upon completion of the Transactions on October 1, 2009. As a result, we have reclassified the results of our capital markets business since inception into this segment. See "Unaudited Pro Forma Financial Information" for a summary of the economic impact of the Transactions.

(7)

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

(8)

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

(9)

Assets under management ("AUM") represent the assets from which we are entitled to receive fees or a carried interest and general partner capital. We calculate the amount of AUM as of any date as the sum of: (i) the fair value of the investments of our investment funds plus uncalled capital commitments from these funds; (ii) the fair value of investments in our co-investment vehicles; (iii) the net asset value of certain of our fixed income products; and (iv) the value of outstanding structured finance vehicles. You should note that our calculation of AUM may differ from the calculations of other asset managers and, as a result, our measurements of AUM may not be comparable to similar measures presented by other asset managers. Our definition of AUM is not based on any definition of AUM that is set forth in the agreements governing the investment funds, vehicles or accounts that we manage. The AUM amounts reported as of December 31, 2007 and 2008 reflect the NAV of KPE and its commitments to our investment funds as those periods are prior to the Combination Transaction on October 1, 2009. Subsequent to the Combination Transaction, we began reporting AUM excluding the NAV of KPE and its commitments to our private equity funds. On a pro forma basis, giving effect to the exclusion of KPE, AUM as of December 31, 2007 and 2008 would have been $47.2 billion and $44.9 billion, respectively.

(10)

Fee paying assets under management ("FPAUM") represents only those assets under management from which we receive fees. FPAUM is the sum of all of the individual fee bases that are used to

Table of Contents

calculate our fees and differs from AUM in the following respects: (i) assets from which we do not receive a fee are excluded (i.e., assets with respect to which we receive only carried interest); and (ii) certain assets, primarily in our private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments. The FPAUM amounts reported as of December 31, 2007 and 2008 reflect the NAV of KPE as those periods are prior to the Combination Transaction on October 1, 2009. Subsequent to the Combination Transaction, we began reporting FPAUM excluding the NAV of KPE in its entirety as fees paid by KPE to our management companies are eliminated as intersegment transactions. On a pro forma basis, giving effect to the exclusion of KPE, FPAUM as of December 31, 2007 and 2008 would have been $35.2 billion and $40.2 billion, respectively.

(11) Committed dollars invested is the aggregate amount of capital commitments that have been invested by our investment funds and carry-yielding co-investment vehicles during a given period. Such amounts include: (i) capital invested by fund investors and co-investors with respect to which we are entitled to a carried interest and (ii) capital invested by us.

(12) Uncalled commitments represent unfunded capital commitments that our investment funds and carry-paying co-investment vehicles have received from partners to contribute capital to fund future investments.

RISK FACTORS

You should carefully consider the following information about these risks, together with the other information contained in this prospectus in connection with this offering and holding our common units.

Risks Related to Our Business

Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition.

Our business is materially affected by conditions in the financial markets and economic conditions or events throughout the world, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors are outside our control and may affect the level and volatility of securities prices and the liquidity and the value of our investments. In addition, we may not be able to or may choose not to manage our exposure to these conditions and/or events. The market conditions surrounding each of our businesses, and in particular our private equity business, had been quite favorable for a number of years. A significant portion of the investments of our private equity funds were made during this period. Market conditions, however, significantly deteriorated in 2008 and 2009 and generally remain at depressed levels. Global financial markets experienced considerable declines in the valuations of equity and debt securities, an acute contraction in the availability of credit and the failure of a number of leading financial institutions. Many economies around the world, including the U.S. economy, are in a period of significant decline in employment, household wealth, and lending. These events have led to a significantly diminished availability of credit and an increase in the cost of financing. The lack of credit has materially hindered the initiation of new, large-sized transactions for our private equity business and, together with declines in valuations of equity and debt securities, has adversely impacted our recent operating results reflected in our combined financial statements included in this prospectus. As of March 31, 2009, the date of the lowest aggregate valuation of our private equity funds during the most recent downturn, the investments in our contributed private equity funds were marked down to 67% of original cost. Our profitability may also be adversely affected by our fixed costs and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in net income relating to changes in market and economic conditions.

Our funds may be affected by reduced opportunities to exit and realize value from their investments as lack of financing makes it more difficult for potential buyers to raise sufficient capital to purchase assets in our funds' portfolios, by lower than expected returns on investments made prior to the deterioration of the credit markets, which could cause us to realise diminished or no carried interest, and by the fact that we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds because we can generally only raise capital for a successor fund following the substantial deployment of capital from the existing fund. In the event of poor performance by existing funds or in the absence of improvements in market or economic conditions, fundraising conditions are likely to remain challenging and pressures by investors for lower fees, different fee sharing arrangements or fee concessions will likely continue and could increase. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than for prior funds we have managed or funds managed by our competitors. We might also choose in such circumstances to reduce the size of any new funds so as to include only those investors willing to participate on terms we view as acceptable, which could also reduce our revenues. During 2009, we believe that certain fund sponsors decreased the amount of

Table of Contents

fees they charge investors for fund management. Investors may also seek to redeploy capital away from certain of our fixed income vehicles, which permit redemptions on relatively short notice, in order to meet liquidity needs or invest in other asset classes.

During periods of difficult market or economic conditions or slowdowns (which may be across one or more industries, sectors or geographies), companies in which we have invested may experience decreased revenues, financial losses, credit rating downgrades, difficulty in obtaining access to financing and increased funding costs. These companies may also have difficulty in expanding their businesses and operations or be unable to meet their debt service obligations or other expenses as they become due, including expenses payable to us. Negative financial results in our funds' portfolio companies may result in lower investment returns for our investment funds, which could materially and adversely affect our operating results and cash flow. To the extent the operating performance of such portfolio companies (as well as valuation multiples) do not improve or other portfolio companies experience adverse operating performance, our funds may sell those assets at values that are less than we projected or even at a loss, thereby significantly affecting those funds' performance and consequently our operating results and cash flow. During such periods of economic difficulty, our investment funds' portfolio companies may also have difficulty expanding their businesses and operations or meeting their debt service obligations or other expenses as they become due, including amounts payable to us. Furthermore, negative market conditions or a specific market dislocation may result in lower investment returns for our funds, which would further adversely affect our net income. Adverse conditions may also increase the risk of default with respect to private equity, fixed income and other equity investments that we manage. Although market conditions have recently shown some signs of improvement, we are unable to predict whether economic and market conditions may continue to improve. Even if economic and market conditions do improve broadly and significantly over the long term, adverse conditions in particular sectors may cause our performance to suffer.

Changes in the debt financing markets have negatively impacted the ability of our private equity funds and their portfolio companies to obtain attractive financing for their investments and have increased the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decreasing our net income.

During 2008 and 2009, the markets for debt financing contracted significantly, particularly in the area of acquisition financings for private equity and real estate transactions. Large commercial and investment banks, which have traditionally provided such financing, have demanded higher rates, higher equity requirements as part of private equity and real estate investments, more restrictive covenants and generally more onerous terms in order to provide such financing, and in some cases are refusing to provide financing for acquisitions the type of which would have been readily financed in earlier years. In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Any failure by lenders to provide previously committed financing can also expose us to potential claims by sellers of businesses which we may have contracted to purchase. Similarly, our portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that the current credit markets have rendered such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns on our funds. In addition, to the extent that the current markets make it difficult or impossible to refinance debt that is maturing in the near term, we or some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.

Table of Contents

Recent developments in the U.S. and global financial markets have created a great deal of uncertainty for the asset management industry, and these developments may adversely affect the investments made by our funds or their portfolio companies or reduce the ability of our funds to raise or deploy capital, each of which could further materially reduce our revenue, net income and cash flow.

Recent developments in the U.S. and global financial markets have illustrated that the current environment is one of extraordinary and unprecedented uncertainty and instability for the asset management industry. With global credit markets experiencing substantial disruption (especially in the mortgage finance markets) and liquidity shortages, financial instability spread globally. In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, in October 2008, the U.S. government passed the Emergency Economic Stabilization Act of 2008, authorizing the U.S. Secretary of the Treasury to purchase up to $700 billion in distressed mortgage related assets from financial institutions, the U.S. Federal Reserve announced the creation of a special-purpose facility to buy commercial paper in order to stabilize financial markets and the U.S. Treasury Department announced a capital purchase program under the Emergency Economic Stabilization Act of 2008 pursuant to which the Treasury may purchase up to $250 billion of senior preferred shares in certain financial institutions. The U.K. government similarly announced a plan to recapitalize some of the country's largest financial institutions. In March 2009, the U.S. Department of the Treasury and the Federal Reserve announced the launch of the Term Asset-Backed Securities Loan Facility, which provides up to $200 billion of financing (which may be increased to up to $1 trillion) to certain U.S. entities to purchase qualifying asset-backed securities, and the U.S. Department of the Treasury announced plans for the Public Private Investment Partnership Program for legacy assets, which is intended to facilitate the purchase of various loans and securities held by financial institutions. In addition, there has also been substantial consolidation in the financial services industry. Although market conditions have recently shown some signs of improvement, there can be no assurances that conditions in the global financial markets will not worsen and/or further adversely affect our investments, access to leverage and overall performance.

Adverse economic and market conditions may adversely affect our liquidity position, which could adversely affect our business operations in the future.

We expect that our primary liquidity needs will consist of cash required to:

- continue to grow our business, including funding our capital commitments made to existing and future funds and any net capital requirements of our capital markets companies;
- service debt obligations, including indebtedness acquired from KKR Guernsey in connection with the Combination Transaction and any contingent liabilities that give rise to future cash payments;
- fund cash operating expenses;
- pay amounts that may become due under our tax receivable agreement with KKR Holdings; and
- make cash distributions in accordance with our distribution policy.

These liquidity requirements are significant and, in some cases, involve capital that will remain invested for extended periods of time. As of December 31, 2009, we have approximately $1,272.3 million of remaining unfunded capital commitments to our investment funds, including $827.3 million of unfunded commitments acquired from KKR Guernsey. Our commitments to our funds will require significant cash outlays over time, and there can be no assurance that we will be able to generate sufficient cash flows from realizations of investments to fund them. In addition, as of December 31, 2009, we had $733.7 million of borrowings outstanding under our credit facilities and $546.7 million of cash and cash equivalents. While we have long-term committed financings with

Table of Contents

substantial facility limits, the terms of those facilities will expire in 2012 and 2013, respectively (see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources"), and any borrowings thereunder will require refinancing or renewal, which could result in higher borrowing costs, or issuing equity. If the current credit market conditions were to worsen, we may not be able to renew all or part of these credit facilities or find alternate sources of financing on commercially reasonable terms or raise equity. In that event, our uses of cash could exceed our sources of cash, thereby potentially adversely affecting our liquidity or causing us to sell assets on unfavorable terms. In addition, the underwriting commitments for our capital markets business may require significant cash obligations, and these commitments may also put pressure on our liquidity. The holding company for our capital markets business has entered into a credit agreement that provides for revolving borrowings of up to $500 million, which can be used in connection with our ongoing business activities, including placing and underwriting securities offerings. To the extent we commit to buy and sell an issue of securities in firm commitment underwritings or otherwise, we may be required to borrow under this credit agreement to fund such obligations, which, depending on the size and timing of the obligations, may limit our ability to enter into other underwriting arrangements or similar activities, service existing debt obligations or otherwise grow our business.

The "clawback" or "net loss sharing" provisions in our governing agreements may give rise to a contingent obligation that may require us to return or contribute amounts to our funds and investors.

The partnership documents governing our traditional private equity funds generally include a "clawback" or, in certain instances, a "net loss sharing" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return or contribute amounts to the fund for distribution to investors at the end of the life of the fund. Under a "clawback" provision, upon the liquidation of a fund, the general partner is required to return, on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled. Excluding carried interest received by the general partners of our 1996 Fund (which was not contributed to us in the Transactions), as of December 31, 2009, the amount of carried interest we have received that is subject to this clawback obligation was $84.9 million, assuming that all applicable private equity funds were liquidated at their December 31, 2009 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been $716.2 million. Under a "net loss sharing provision," upon the liquidation of a fund, the general partner is required to contribute capital to the fund, to fund 20% of the net losses on investments. In these vehicles, such losses would be required to be paid by us to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed. Based on the fair market values as of December 31, 2009, our obligation in connection with the net loss sharing provision would have been approximately $93.6 million. If the vehicles were liquidated at zero value, the contingent repayment obligation in connection with the net loss sharing provision as of December 31, 2009 would have been approximately $1,182.7 million.

Prior to the Transactions, certain of our principals who received carried interest distributions with respect to the private equity funds had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of the private equity funds to repay amounts to fund limited partners pursuant to the general partners' clawback obligations. The terms of the Transactions require that our principals remain responsible for clawback obligations relating to carry distributions received prior to the Transactions up to a maximum of $223.6 million. Carry distributions arising subsequent to the Transactions may give rise to clawback obligations that may be allocated generally to carry pool participants and the Combined Business in accordance with the terms of the instruments governing the KKR Group Partnerships. Unlike the "clawback" provisions, the Combined Business will be responsible for amounts due under net loss sharing arrangements and will indemnify our principals for any personal guarantees that they have provided with respect to such amounts.

Our earnings and cash flow are highly variable due to the nature of our business and we do not intend to provide earnings guidance, each of which may cause the value of interests in our business to be volatile.

Our earnings are highly variable from quarter to quarter due to the volatility of investment returns of most of our funds and other investment vehicles and our principal assets and the fees earned from our funds. We recognize earnings on investments in our funds based on our allocable share of realized and unrealized gains (or losses) reported by such funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our net income. Fee income, which we recognize when contractually earned, can vary due to fluctuations in AUM, the number of investment transactions made by our funds, the number of portfolio companies we manage and the fee provisions contained in our funds and other investment products. Fees for the years ended December 31, 2007, 2008 and 2009 were $862.3 million, $235.2 million and $331.3 million, respectively. We may create new funds or investment products or vary the terms of our funds or investment products, which may alter the composition or mix of our income from time to time. We may also experience fluctuations in our results from quarter to quarter, including our revenue and net income, due to a number of other factors, including changes in the values of our funds' investments, changes in the amount of distributions or interest earned in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. Net income (loss) attributable to Group Holdings for the years ended December 31, 2007, 2008 and 2009 was $802.8 million, $(1,204.5) million and $849.7 million, respectively. Such variability may lead to variability in the value of interests in our business and cause our results for a particular period not to be indicative of our performance in future periods. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the value of interests in our business.

The timing and receipt of carried interest from our private equity funds are unpredictable and will contribute to the volatility of our cash flows. Carried interest is distributed to the general partner of a vehicle with a clawback or net loss sharing provision only after all of the following are met: (i) a realization event has occurred (e.g. sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception; and (iii) all of the cost has been returned to investors with respect to investments with a fair value below remaining cost. Carried interest payments from private equity investments depend on our funds' performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive private equity investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering or other exit. To the extent a private equity investment is not profitable, no carried interest shall be received from our private equity funds with respect to that investment and, to the extent such investment remains unprofitable, we will only be entitled to a management fee on that investment. Even if a private equity investment proves to be profitable, it may be several years before any profits can be realized in cash. We cannot predict when, or if, any realization of investments will occur. In particular, since the latter half of 2007, the credit dislocation and related reluctance of many finance providers, such as commercial and investment banks, to provide financing have made it difficult for potential purchasers to secure financing to purchase companies in our investment funds' portfolio, thereby decreasing potential realization events and the potential to earn carried interest. A downturn in the equity markets also makes it more difficult to exit investments by selling equity securities. If we were to have a realization event in a particular quarter, the event may have a significant impact on our cash flows during the quarter that may not be replicated in subsequent quarters. A decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our investment income, which could further increase the volatility of our quarterly results.

Table of Contents

A decline in the pace or size of investment by our funds or an increase in the amount of transaction fees we share with our investors would result in our receiving less revenue from transaction fees.

The transaction fees that we earn are driven in part by the pace at which our funds make investments and the size of those investments. Any decline in that pace or the size of such investments would reduce our transaction fees and could make it more difficult for us to raise capital. Many factors could cause such a decline in the pace of investment, including:

- the inability of our investment professionals to identify attractive investment opportunities;
- competition for such opportunities among other potential acquirers;
- decreased availability of capital on attractive terms; and
- our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets.

In particular, the current limited financing options for leveraged buy-outs resulting from the credit market dislocation has significantly reduced the pace and size of traditional buyout investments by our funds. Due primarily to this reduction in traditional buyout investments, the amount of committed dollars invested by our Private Markets Segment decreased to $2.1 billion for the year ended December 31, 2009, a decrease of $1.1 billion, or 33.5%, from the year ended December 31, 2008. In addition, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to increase the percentage of transaction fees we share with our investors. To the extent we accommodate such requests, it would result in a decrease in the amount of fee revenue we earn.

The asset management business is intensely competitive, which could have a material adverse impact on our business.

We compete as an asset manager for both investors and investment opportunities. The asset management business is highly fragmented, with our competitors consisting primarily of sponsors of public and private investment funds, business development companies, investment banks, commercial finance companies and operating companies acting as strategic buyers of businesses. According to Institutional Investor, as of December 31, 2008, there were more than 100 asset managers in the United States with over $25 billion of AUM. We believe that competition for investors is based primarily on:

- investment performance;
- investor liquidity and willingness to invest;
- investor perception of investment managers' drive, focus and alignment of interest;
- business reputation;
- the duration of relationships with investors;

- the quality of services provided to investors;
- pricing;
- fund terms (including fees); and
- the relative attractiveness of the types of investments that have been or will be made.

Table of Contents

We believe that competition for investment opportunities is based primarily on the pricing, terms and structure of a proposed investment and certainty of execution.

Due to the global economic downturn and relatively poor investment returns, institutional investors have suffered from decreasing returns, liquidity pressure, increased volatility and difficulty maintaining targeted asset allocations, and a significant number of investors have materially decreased or temporarily suspended making new fund investments during this period. As the economy begins to recover, such investors may elect to reduce their overall portfolio allocations to alternative investments such as private equity funds, resulting in a smaller overall pool of available capital in our industry. Investors may also seek to redeploy capital away from certain of our fixed income vehicles, which permit redemptions on relatively short notice in order to meet liquidity needs or invest in other asset classes.

In the event all or part of this analysis proves true, when trying to raise new capital we will be competing for less available capital in an increasingly competitive environment which could lead to terms less favorable to us as well as difficulty in raising new capital. Such changes would adversely affect our revenues and profitability.

A number of factors serve to increase our competitive risks:

- a number of our competitors in some of our businesses have greater financial, technical, marketing and other resources and more personnel than we do;
- a significant number of investors have materially decreased or temporarily suspended making new fund investments recently because of the global economic downturn and relatively poor returns in their overall alternative asset investment portfolios in 2008 and 2009;
- some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do;
- some of our funds may not perform as well as competitors' funds or other available investment products;
- investors may reduce their investments in our funds or not make additional investments in our funds based upon their available capital;
- several of our competitors have recently raised during a period of easier fundraising, or are expected to raise, significant amounts of capital, which fundraising efforts may occur on or around the same time as ours, and many of them have similar investment objectives and strategies to our funds, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit;
- some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities;
- some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments;
- our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment;

Table of Contents

- there are relatively few barriers to entry impeding the formation of new funds, including a relatively low cost of entering these businesses, and the successful efforts of new entrants into our various lines of business, including major commercial and investment banks and other financial institutions, have resulted in increased competition;

- some investors may prefer to invest with an investment manager that is not publicly traded, is smaller, or manages fewer investment products; and

- other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased investment returns and increased risks of loss if we match investment prices, structures and terms offered by competitors. Moreover, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current fund fee, carried interest or other terms. There is a risk that fees and carried interest in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

In addition, if interest rates were to rise or if market conditions for competing investment products improve and such products begin to offer rates of return superior to those achieved by our funds, the attractiveness of our funds relative to investments in other investment products could decrease. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future funds, either of which would adversely impact our business, results of operations and cash flow.

Our structure involves complex provisions of U.S. federal income tax laws for which no clear precedent or authority may be available. These structures also are subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of our unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax laws for which no clear precedent or authority may be available. You should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the Internal Revenue Service, or IRS, and the U.S. Department of the Treasury frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The present U.S. federal income tax treatment of owning our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. For instance, changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible for us to be treated as a partnership that is not taxable as a corporation for U.S. federal income tax purposes, affect the tax considerations of owning our common units, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely impact your investment in our common units. See the discussion below under " Legislation has been introduced in the U.S. Congress in various forms that, if enacted, (i) could preclude us from qualifying as a partnership and/or (ii) could tax carried interest as ordinary income for U.S. federal income tax purposes and require us to hold carried interest through taxable subsidiary corporations. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the market price of our common units." Our organizational documents and agreements give the Managing Partner broad authority to modify the amended and restated partnership agreement from time to time as the

Table of Contents

Managing Partner determines to be necessary or appropriate, without the consent of the unitholders, to address changes in U.S. federal state and local income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all unitholders. For instance, the Managing Partner could elect at some point to treat us as an association taxable as a corporation for U.S. federal (and applicable state) income tax purposes. If the Managing Partner were to do this, the U.S. federal income tax consequences of owning our common units would be materially different. Moreover, certain assumptions and conventions will be applied in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to unitholders in a manner that reflects such unitholders' beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects our unitholders.

Legislation has been introduced in the U.S. Congress in various forms that, if enacted, (i) could preclude us from qualifying as a partnership and/or (ii) could tax carried interest as ordinary income for U.S. federal income tax purposes and require us to hold carried interest through taxable subsidiary corporations. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the market price of our common units.

In 2007, legislation was introduced in the U.S. Congress that would tax as corporations publicly traded partnerships that directly or indirectly derive income from investment advisor or asset management services. In 2008, the U.S. House of Representatives passed a bill that would generally (i) treat carried interest as non-qualifying income under the tax rules applicable to publicly traded partnerships, which could preclude us from qualifying as a partnership for U.S. federal income tax purposes, and (ii) tax carried interest as ordinary income for U.S. federal income taxes, rather than in accordance with the character of income derived by the underlying fund. In December 2009, the U.S. House of Representatives passed substantially similar legislation. Such legislation would tax carried interest as ordinary income starting this taxable year. In addition, the Obama administration proposed in its published revenue proposals for both 2010 and 2011 that the current law regarding the treatment of carried interest be changed to subject such income to ordinary income tax. Certain versions of the proposed legislation (including the legislation passed in December 2009) contain a transition rule that may delay the applicability of certain aspects of the legislation for a partnership that is a publicly traded partnership on the date of enactment of the legislation.

If the changes suggested by the administration or any of the proposed legislation or similar legislation were adopted, income attributable to carried interest may not meet the qualifying income requirements under the publicly traded partnership rules, and, therefore, we could either be precluded from qualifying as a partnership for U.S. federal income tax purpose or be required to hold interests in entities earning such income through a taxable U.S. corporation. If we were taxed as a corporation, our effective tax rate would increase significantly. The federal statutory rate for corporations is currently 35%. In addition, we would likely be subject to increased state and local taxes. Therefore, if any such legislation or similar legislation were to be enacted and apply to us, it would materially increase our tax liability, which could well result in a reduction in the market price of our common units.

In addition, if the proposed legislation is adopted, it could increase the amount of tax KKR's principals and other professionals would be required to pay, thereby adversely affecting KKR's ability to offer attractive incentive opportunities for key personnel.

Table of Contents

We depend on our founders and other key personnel, the loss of whose services would have a material adverse effect on our business, results and financial condition.

We depend on the efforts, skills, reputations and business contacts of our principals, including our founders, Henry Kravis and George Roberts, and other key personnel, the information and deal flow they and others generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals. Accordingly, our success depends on the continued service of these individuals, who are not obligated to remain employed with us. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow AUM in existing funds or raise additional funds in the future.

Our principals and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds and members of the business community and result in the reduction of AUM or fewer investment opportunities. For example, if any of our principals were to join or form a competing firm, our business, results and financial condition could suffer.

Furthermore, the agreements governing our traditional private equity funds and certain fixed income funds managed by us provide that in the event certain "key persons" in these funds (for example, both of Messrs. Kravis and Roberts, and, in the case of certain geographically or product focused funds, one or more of the executives focused on such funds) generally cease to actively manage a fund, investors in the fund will be entitled to: (i) in the case of our traditional private equity funds, reduce, in whole or in part, their capital commitments available for further investments; and (ii) in the case of certain of our fixed income funds, withdraw all or any portion of their capital accounts, in each case on an investor-by-investor basis. The occurrence of such an event would likely have a significant negative impact on our revenue, net income and cash flow.

If we cannot retain and motivate our principals and other key personnel and recruit, retain and motivate new principals and other key personnel, our business, results and financial condition could be adversely affected.

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our principals and other professionals, and to a substantial degree on our ability to retain and motivate our principals and other key personnel and to strategically recruit, retain and motivate new talented personnel, including new principals. However, we may not be successful in these efforts as the market for qualified investment professionals is extremely competitive. Our ability to recruit, retain and motivate our professionals is dependent on our ability to offer highly attractive incentive opportunities. If legislation, such as the legislation proposed in April 2009 (and reproposed in 2010) were to be enacted, income and gains recognized with respect to carried interest would be treated for U.S. federal income tax purposes as ordinary income rather than as capital gain. Such legislation would materially increase the amount of taxes that we, our principals and other professionals would be required to pay, thereby adversely affecting our ability to offer such attractive incentive opportunities. See " Risks Related to U.S. Taxation". The loss of even a small number of our investment professionals could jeopardize the performance of our funds and other investment products, which would have a material adverse effect on our results of operations. Efforts to retain or attract investment professionals may result in significant additional expenses, which could adversely affect our profitability.

Our principals hold interests in our business through KKR Holdings. These individuals receive financial benefits from our business in the form of distributions and amounts funded by KKR Holdings and through their direct and indirect participation in the value of KKR Group Partnership Units held by KKR Holdings. While all of our employees and our principals receive base salaries from us, profit-based cash amounts for certain individuals are borne by KKR Holdings. There can be no assurance

Table of Contents

that KKR Holdings will have sufficient cash available to continue to make profit-based cash payments. In addition, we may be unwilling to grant our employees additional significant equity awards in our business, and the value of the grants and distributions they receive in respect of their existing awards may be lower than anticipated. This may limit our ability to attract, retain and motivate talented personnel. In order to recruit and retain existing and future investment professionals, we may need to increase the level of compensation that we pay to them, which may cause a higher percentage of our revenue to be paid out in the form of compensation, which would have an adverse impact on our profit margins.

In addition, there is no guarantee that the confidentiality and restrictive covenant agreements to which our principals are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. These agreements will expire after a certain period of time, at which point each of our principals would be free to compete against us and solicit investors in our funds, clients and employees. Depending on which entity is a party to these agreements, we may not be able to enforce them, and these agreements might be waived, modified or amended at any time without our consent. See "Certain Relationships and Related Party Transactions Confidentiality and Restrictive Covenant Agreements."

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain our culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

Operational risks may disrupt our businesses, result in losses or limit our growth.

We rely heavily on our financial, accounting and other data processing systems. If any of these systems does not operate properly or is disabled, we could suffer financial loss, a disruption of our businesses, liability to our funds, regulatory intervention or reputational damage. In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from our current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on our business. Furthermore, we depend on our principal offices in New York City, where most of our administrative personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our principal offices, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all. Finally, we rely on third party service providers for certain aspects of our business, including for certain information systems, technology and administration and compliance matters. Any interruption or deterioration in the performance of these third parties could impair the quality of our and our funds' operations and could impact our reputation and adversely affect our businesses and limit our ability to grow.

Table of Contents

The time and attention that our principals and other employees devote to assets that were not contributed to the KKR Group Partnerships as part of the Transactions will not financially benefit the KKR Group Partnerships and may reduce the time and attention these individuals devote to the KKR Group Partnerships' business.

As of December 31, 2009, the unrealized value of the investments held by the 1987 Fund, the 1993 Fund and the 1996 Fund totaled $0.8 billion, or approximately 2% of our AUM. Because we believe the general partners of these funds will not receive meaningful proceeds from further realizations, we did not acquire general partner interests in them in connection with the Transactions. We will, however, continue to provide the funds with management and other services until their liquidation. While we will not receive meaningful fees for providing these services, our principals and other employees will be required to devote a portion of their time and attention to the management of those entities. The devotion of the time and attention of our principals and employees to those activities will not financially benefit the KKR Group Partnerships and may reduce the time and attention they devote to the KKR Group Partnerships' business.

Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.

We intend, to the extent that market conditions warrant, to seek to grow our businesses by increasing AUM in existing businesses, pursuing new investment strategies, including investment opportunities in new asset classes, developing new types of investment structures and products (such as managed accounts and structured products), and expanding into new geographic markets and businesses. We recently opened offices in Mumbai, India, Seoul, Korea and Dubai, UAE, and also developed a capital markets business in the United States, Europe and Asia, which we intend to grow and diversify. We may pursue growth through acquisitions of other investment management companies, acquisitions of critical business partners or other strategic initiatives, which may include entering into new lines of business. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with:

- the required investment of capital and other resources;
- the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk;
- the possibility of diversion of management's attention from our core business;
- the possibility of disruption of our ongoing business;
- combining or integrating operational and management systems and controls;
- potential increase in investor concentration; and
- the broadening of our geographic footprint, including the risks associated with conducting operations in foreign jurisdictions.

Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

Table of Contents

Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could result in additional burdens on our business.

Our business is subject to extensive regulation. We are subject to regulation, including periodic examinations, by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of applicable licenses and memberships. Even if an investigation or proceeding does not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients and investors or fail to gain new clients and investors.

As a result of market disruption as well as highly publicized financial scandals, regulators and investors have exhibited concerns over the integrity of the U.S. financial markets, and the businesses in which we operate both in the United States and outside the United States are likely to be subject to further regulation. There has been an active debate both nationally and internationally over the appropriate extent of regulation and oversight of private investment funds and their managers. There are proposals in the U.S. Congress and emanating from the U.S. Department of the Treasury that would identify various kinds of private funds as being potentially systemically significant and subject to increased reporting, oversight and regulation. Any changes in the regulatory framework applicable to our business may impose additional expenses on us, require the attention of senior management or result in limitations in the manner in which our business is conducted. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Such investigations may impose additional expenses on us, may require the attention of senior management and may result in fines if any of our funds are deemed to have violated any regulations.

Recent legislative or regulatory proposals in the U.S. include designating a federal agency or representatives of several agencies as the financial system's systemic risk regulator with authority to review the activities of all financial institutions, including alternative asset managers, and to impose regulatory standards on any companies deemed to pose a threat to the financial health of the U.S. economy; authorizing federal regulatory agencies to ban compensation arrangements at financial institutions that give employees incentives to engage in conduct that could pose risks to the nation's financial system; granting the U.S. government resolution authority to take emergency measures with regard to financial institutions that fall outside the existing resolution authority of the Federal Deposit Insurance Corporation, including the authority to place an institution into conservatorship or receivership; creating a new consumer financial protection agency or a consumer financial protection bureau within the Federal Deposit Insurance Corporation or the U.S. Department of the Treasury; subjecting certain types of large financial institutions to an incremental tax based on the amount of AUM or income and the type of financial services provided; and establishing new ground rules for private equity investments in failed banks that make the acquisition of a failed bank less attractive for a private equity fund. In addition, certain constituencies have recently been advocating for greater legislative and regulatory oversight of private equity firms and transactions and to prevent pension funds from investing in private equity funds.

Members of the U.S. Senate have proposed the Hedge Fund Transparency Act, which would apply to private equity funds, venture capital funds, real estate funds and other private investment vehicles with at least $50 million in assets under management. If enacted, the bill would require such funds to register with the SEC, maintain books and records in accordance with SEC requirements and become subject to SEC examinations and information requests in order to remain exempt from the substantive

Table of Contents

provisions of the Investment Company Act. The proposed legislation also requires each fund to file annual disclosures, which would be made public, containing detailed information about the fund. The proposed legislation also requires each fund to establish anti-money laundering programs. In addition, the Obama administration delivered proposed legislation that, if enacted, would require advisors to hedge funds and other private pools of capital with over $30 million in assets under management to register as Investment Advisors with the SEC under the Investment Advisers Act of 1940. The proposed legislation would subject advisors to substantial regulatory reporting requirements and expand the SEC's examination and enforcement authority. In 2009, the U.S. House of Representatives passed legislation that would empower federal regulators to prescribe regulations to prohibit any incentive-based payment arrangements that the regulators determine encourage financial institutions to take risks that could threaten the soundness of the financial institutions or adversely affect economic conditions and financial stability. At this time, we cannot predict what form this legislation would take, and what effect, if any, it may have on our business or the markets in which we operate. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. If enacted, the proposed legislation could negatively impact our funds in a number of ways, including increasing the funds' regulatory costs, imposing additional burdens on the funds' staff, and potentially requiring the disclosure of sensitive information. In addition, we may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

On April 30, 2009, the European Commission published a draft of a proposed EU Directive on Alternative Investment Fund Managers, or AIFM. The Directive, if adopted in the form proposed, would apply to all AIFMs operating within the EU with more than €100 million in assets under management, including both hedge funds and private equity funds. AIFMs would be required to seek authorization from their home jurisdiction within the EU, which would require the disclosure of such information as fair valuation of assets, investment strategy, and markets in which investments are made on a regular basis. The Directive, if adopted, would also set a threshold for regulatory capital, allow regulators to set a threshold for leverage and create reporting obligations to companies in which a controlling stake is held. Such rules could have a particularly adverse effect on our investment businesses by among other things (i) imposing costly requirements to hire an independent valuation firm based in the EU to value all of our funds' assets and to hire an independent depositary based in the EU to hold all of our investments, (ii) imposing extensive disclosure obligations on our funds' portfolio companies, (iii) prohibiting us from marketing our investment funds to any investors based in a EU country for three years after enactment of the directive and significantly restricting those marketing activities thereafter, and (iv) potentially in effect restricting our funds' investments in companies based in EU countries. The Directive, if adopted in its current form, could limit, both in absolute terms and in comparison to EU-based investment managers and funds, our operating flexibility, our ability to market our funds, and our fund raising and investment opportunities, as well as expose us to conflicting regulatory requirements in the United States and the EU.

We regularly rely on exemptions in the United States from various requirements of the Securities Act, the Exchange Act, the Investment Company Act of 1940, or Investment Company Act, and the U.S. Employee Retirement Income Security Act of 1974, or ERISA, in conducting our asset management activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third-party claims and our business could be materially and adversely affected. See " Risks Related to Our Organizational Structure If we were deemed to be an "investment company" subject to regulation under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business." Moreover, the

Table of Contents

requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our funds and are not designed to protect holders of interests in our business. Consequently, these regulations often serve to limit our activities. In addition, the regulatory environment in which our fund investors operate may affect our business. For example, changes in antitrust laws or the enforcement of antitrust laws could affect the level of mergers and acquisitions activity, and changes in state laws may limit investment activities of state pension plans. We may also be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets.

Our operations are subject to regulation and supervision in a number of domestic and foreign jurisdictions, and the level of regulation and supervision to which we are subject varies from jurisdiction to jurisdiction and is based on the type of business activity involved. See "Business Regulation."

We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.

The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of our portfolio companies may subject them and us to the risk of third-party litigation arising from investor dissatisfaction with the performance of our funds, the activities of our portfolio companies and a variety of other litigation claims. See "Business Legal Proceedings." By way of example, we, our funds and certain of our employees are each exposed to the risks of litigation relating to investment activities in our funds and actions taken by the officers and directors (some of whom may be KKR employees) of portfolio companies, such as the risk of shareholder litigation by other shareholders of public companies or holders of debt instruments of companies in which our funds have significant investments. We are also exposed to risks of litigation or investigation in the event of any transactions that presented conflicts of interest that were not properly addressed.

To the extent investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our private equity funds, our principals or our affiliates under federal securities law and state law. Investors in our funds do not have legal remedies against us, the general partners of our funds, our funds, our principals or our affiliates solely based on their dissatisfaction with the investment performance of those funds. While the general partners and investment advisors to our private equity funds, including their directors, officers, other employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our private equity funds, such indemnity generally does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

If any lawsuits were brought against us and resulted in a finding of substantial legal liability, the lawsuit could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously impact our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and to pursue investment opportunities for our funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

In addition, with a workforce composed of many highly paid professionals, we face the risk of litigation relating to claims for compensation, which may, individually or in the aggregate, be significant in amount. The cost of settling any such claims could negatively impact our business, financial condition and results of operations.

Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm.

There is a risk that our principals and employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our business and our authority over the assets we manage. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships, as well as face potentially significant litigation. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If any of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

Risks Related to the Assets We Manage

As an asset manager, we sponsor and manage funds and vehicles that make investments worldwide on behalf of third-party investors and, in connection with those activities, are required to deploy our own capital in those investments. The investments of these funds and vehicles are subject to many risks and uncertainties which, to the extent they are material, are discussed below. In addition, we have principal investments and manage those assets on our own behalf. As a result, the gains and losses on such assets are reflected in our net income and the risks set forth below relating to the assets that we manage will directly affect our operating performance.

The historical returns attributable to our funds, including those presented in this prospectus, should not be considered as indicative of the future results of our funds or of our future results or of any returns on our common units.

We have presented in this prospectus net and gross IRRs, multiples of invested capital and realized and unrealized investment values for funds that we have sponsored and managed. The historical and potential future returns of the funds that we manage are not directly linked to returns on KKR Group Partnership Units.

Moreover, with respect to the historical returns of our funds:

- the rates of returns of our funds reflect unrealized gains as of the applicable valuation date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments;

- the historical returns that we present in this prospectus derive largely from the performance of our earlier private equity funds, whereas future fund returns will depend increasingly on the performance of our newer funds, which may have little or no investment track record;

- the future performance of our funds will be affected by macroeconomic factors, including negative factors arising from recent disruptions in the global financial markets that were not prevalent in the periods relevant to the historical return data included in this prospectus;

- in some historical periods, the rates of return of some of our funds have been positively influenced by a number of investments that experienced a substantial decrease in the average holding period of such investments and rapid and substantial increases in value following the dates on which those investments were made; the actual or expected length of holding periods

Table of Contents

- related to investments has increased in recent periods and there can be no assurance that prior trends will re-emerge;

- our newly established funds may generate lower returns during the period that they take to deploy their capital;

- our funds' returns have benefited from investment opportunities and general market conditions that may not repeat themselves, including favorable borrowing conditions in the debt markets in 2006 and 2007 that have not existed since, thereby increasing both the cost and difficulty of financing transactions, and there can be no assurance that our current or future funds will be able to avail themselves of comparable investment opportunities or market conditions; and

- we may create new funds in the future that reflect a different asset mix in terms of allocations among funds, investment strategies, geographic and industry exposure and vintage year.

In addition, future returns will be affected by the risks described elsewhere in this prospectus, including risks of the industry sectors and businesses in which a particular fund invests. See "Risk Factors Risks Related to our Business Recent developments in the U.S. and global financial markets have created a great deal of uncertainty for the asset management industry, and these developments may adversely affect the investments made by our funds or their portfolio companies or reduce the ability of our funds to raise or deploy capital, each of which could further materially reduce our revenue, net income and cash flow."

Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.

There are no readily ascertainable market prices for a substantial majority of illiquid investments of our investment funds and our finance vehicles. When determining fair values of investments, we use the last reported market price as of the statement of financial condition date for investments that have readily observable market prices. When an investment does not have a readily available market price, the fair value of the investment represents the value, as determined by us in good faith, at which the investment could be sold in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. There is no single standard for determining fair value in good faith and in many cases fair value is best expressed as a range of fair values from which a single estimate may be derived. When making fair value determinations, we typically use a market multiples approach that considers a specified financial measure (such as EBITDA) and/or a discounted cash flow analysis. KKR also considers a range of additional factors that we deem relevant, including the applicability of a control premium or illiquidity discount, the presence of significant unconsolidated assets and liabilities, any favorable or unfavorable tax attributes, the method of likely exit, estimates of assumed growth rates, terminal values, discount rates, capital structure and other factors. These valuation methodologies involve a significant degree of management judgment.

Because valuations, and in particular valuations of investments for which market quotations are not readily available, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed. Even if market quotations are available for our investments, such quotations may not reflect the value that we would actually be able to realize because of various factors, including possible illiquidity. Our partners' capital could be adversely affected if the values of investments that we record is materially higher than the values that are ultimately realized upon the disposal of the investments and changes in values attributed to investments from quarter to quarter may result in volatility in our AUM and such changes could materially affect the results of operations that we report from period to period. There can be no assurance that the investment values that we record from time to time will ultimately be realized and that you will be able to realize the investment values that are presented in this prospectus.

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of investments reflected in an investment fund's or finance vehicle's NAV do not necessarily reflect the prices that would actually be obtained by us on behalf of the fund or finance vehicle when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund NAVs would result in losses for the applicable fund and the loss of potential carried interest and other fees. Also, if realizations of our investments produce values materially different than the carrying values reflected in prior fund NAVs, investors may lose confidence in us, which could in turn result in difficulty in raising capital for future funds.

Even if market quotations are available for our investments, such quotations may not reflect the value that could actually be realized because of various factors, including the possible illiquidity associated with a large ownership position, subsequent illiquidity in the 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 the market's view of overall company and management performance.

In addition, because we value our entire portfolio only on a quarterly basis, subsequent events that may have a material impact on those valuations may not be reflected until the next quarterly valuation date.

Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.

Because many of our funds' investments rely heavily on the use of leverage, our ability to achieve attractive rates of return on investments will depend on our continued ability to access sufficient sources of indebtedness at attractive rates. For example, our fixed income funds use varying degrees of leverage when making investments. Similarly, in many private equity investments, indebtedness may constitute up to 70% or more of a portfolio company's total debt and equity capitalization, including debt that may be incurred in connection with the investment, and a portfolio company's indebtedness may also increase in recapitalization transactions subsequent to the company's acquisition. The absence of available sources of sufficient debt financing for extended periods of time could therefore materially and adversely affect our funds and our portfolio companies. Also, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness such as we experienced during 2009 would make it more expensive to finance those investments. In addition, increases in interest rates could decrease the value of fixed-rate debt investments that our specialty finance company or our funds make. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Capital markets are volatile, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment.

Investments in highly leveraged entities are also inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- subject the entity to a number of restrictive covenants, terms and conditions, any violation of which would be viewed by creditors as an event of default and could materially impact our ability to realize value from our investment;

Table of Contents

- allow even moderate reductions in operating cash flow to render it unable to service its indebtedness;
- give rise to an obligation to make mandatory prepayments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities;
- limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt;
- limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth; and
- limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or other general corporate purposes.

A leveraged company's income and equity also tend to increase or decrease at a greater rate than would otherwise be the case if money had not been borrowed. As a result, the risk of loss associated with a leveraged company is generally greater than for companies with comparatively less debt. For example, leveraged companies could default on their debt obligations due to a decrease in revenues and cash flow precipitated by the ongoing economic downturn or by poor relative performance at such a company.

When our funds' existing portfolio investments reach the point when debt incurred to finance those investments matures in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If the current limited availability of financing for such purposes were to persist for several years, when significant amounts of the debt incurred to finance our funds' existing portfolio investments start to come due, these investments could be materially and adversely affected.

The majority owned subsidiaries of KFN, the publicly traded specialty finance company managed by us, regularly use and have used significant leverage to finance their assets. An inability by such subsidiaries to continue to raise or utilize leverage or to maintain adequate levels of collateral under the terms of their collateralized loan obligations could limit their ability to grow their business, reinvest principal cash, distribute cash to KFN or fully execute their business strategy, and KFN's results of operations may be adversely affected. In addition, the debt that KFN has incurred will mature in significant amounts in 2011 and 2012 and there can be no assurance that KFN will be able to refinance any of its indebtedness on commercially reasonable terms or at all. In the absence of improved operating results and access to capital resources, KFN could face substantial liquidity problems and might be required to dispose of material assets or operations to meet its debt service and other obligations.

Among the sectors particularly challenged by the current crisis in the global credit markets are the CLO and leveraged finance markets. KFN has significant exposure to these markets through its CLO subsidiaries, each of which is a Cayman Islands incorporated special purpose company that issued to KFN and other investors notes secured by a pool of collateral consisting primarily of corporate leveraged loans. In most cases, KFN's CLO holdings are deeply subordinated, representing the CLO subsidiary's substantial leverage, which increases both the opportunity for higher returns as well as the magnitude of losses when compared to holders or investors that rank more senior to KFN in right of payment. As a result, during the current continuing economic downturn, KFN and its investors are at greater risk of suffering losses related to the CLO subsidiaries. KFN's CLO subsidiaries have

Table of Contents

experienced an increase in downgrades, depreciations in market value and defaults in respect of leveraged loans in their collateral. There can be no assurance that market conditions giving rise to these types of consequences will not occur, subsist or become more acute in the future. Because KFN's CLO structures involve complex collateral and other arrangements, the documentation for such structures is complex, is subject to differing interpretations and involves legal risk. In July 2009, KFN surrendered for cancellation approximately $298.4 million in aggregate of notes issued to it by certain of its CLOs. The surrendered notes were cancelled and the obligations due under such notes were deemed extinguished. Certain holders of KFN's securities issued by one of KFN's CLOs challenged the surrender for cancellation and KFN subsequently reached a settlement agreement with such holders that restricts KFN's ability to restructure certain CLO debt obligations in the future, which may reduce KFN's financial flexibility in the event of future adverse market or credit conditions. In addition, certain noteholders of one of KFN's other CLOs recently notified KFN of a similar dispute and it may become a party to similar disputes with other noteholders of its CLOs in the future.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

The due diligence process that we undertake in connection with our investments may not reveal all facts that may be relevant in connection with an investment.

Before making our investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment, to identify possible risks associated with that investment and, in the case of private equity investments, to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence, we typically evaluate a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with an investment. Outside consultants, legal advisors, accountants and investment banks are involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence process may at times be subjective with respect to newly organized companies for which only limited information is available. Accordingly, we cannot be certain that the due diligence investigation that we will carry out with respect to any investment opportunity will reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity, including the existence of contingent liabilities. We also cannot be certain that our due diligence investigations will result in investments being successful or that the actual financial performance of an investment will not fall short of the financial projections we used when evaluating that investment.

Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the capital invested.

Many of our funds hold investments in securities that are not publicly traded. In many cases, our funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our funds to dispose of investments is heavily dependent on the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is made. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing our investment returns to risks of downward movement in market prices during the intended disposition period. Accordingly, under certain conditions, our funds may be forced to either sell securities at lower prices than they had expected to realize or defer sales that they had planned to make, potentially for a considerable period of time. We have made and expect to continue to make significant capital investments in our current and future funds. Contributing capital to these funds is risky, and we may lose some or all of the principal amount of our investments.

The investments of our funds are subject to a number of inherent risks.

Our results are highly dependent on our continued ability to generate attractive returns from our investments. Investments made by our private equity and fixed income funds involve a number of significant risks inherent to private equity and fixed income investing, including the following:

- companies in which private equity and fixed income investments are made may have limited financial resources and may be unable to meet their obligations under their securities, which may be accompanied by a deterioration in the value of their equity securities or any collateral or guarantees provided with respect to their debt;

- companies in which private equity and fixed income investments are made are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse impact on their business and prospects;

- companies in which private equity and fixed income investments are made may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;

- instances of fraud and other deceptive practices committed by senior management of portfolio companies in which our funds invest may undermine our due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of a fund's investments as well as contribute to overall market volatility that can negatively impact a fund's investment program;

- our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund's term or otherwise, resulting in a lower than expected return on the investments and, potentially, on the fund itself;

- our funds generally establish the capital structure of portfolio companies on the basis of financial projections based primarily on management judgments and assumptions, and general economic conditions and other factors may cause actual performance to fall short of these financial projections, which could cause a substantial decrease in the value of our equity holdings in the portfolio company and cause our funds' performance to fall short of our expectations; and

- executive officers, directors and employees of an equity sponsor may be named as defendants in litigation involving a company in which a private equity investment is made or is being made, and we or our funds may indemnify such executive officers, directors or employees for liability relating to such litigation.

We often pursue investment opportunities that involve business, regulatory, legal or other complexities.

As an element of our investment style, we often pursue complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or

36

realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. We may cause our funds to acquire an investment that is subject to contingent liabilities, which could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Any of these risks could harm the performance of our funds.

Our private equity investments are typically among the largest in the industry, which involves certain complexities and risks that are not encountered in small- and medium-sized investments.

Our private equity funds make investments primarily in companies with large capitalizations, which involves certain complexities and risks that are not encountered in small-and medium-sized investments. For example, larger transactions may be more difficult to finance and exiting larger deals may present incremental challenges. In addition, larger transactions may pose greater challenges in implementing changes in the company's management, culture, finances or operations, and may entail greater scrutiny by regulators, interest groups and other third parties. Recently, these constituencies have been more active in opposing some larger investments by certain private equity firms.

In some transactions, the amount of equity capital that is required to complete a large capitalization private equity transaction has increased significantly, which has resulted in some of the largest private equity transactions being structured as "consortium transactions." A consortium transaction involves an equity investment in which two or more other private equity firms serve together or collectively as equity sponsors. While we have sought to limit where possible the amount of consortium transactions in which we have been involved, we have participated in a significant number of those transactions. Consortium transactions generally entail a reduced level of control by our firm over the investment because governance rights must be shared with the other consortium investors. Accordingly, we may not be able to control decisions relating to a consortium investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in " Our funds have made investments in companies that we do not control, exposing us to the risk of decisions made by others with which we may not agree." Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment.

Our funds and accounts have made investments in companies that we do not control, exposing us to the risk of decisions made by others with which we may not agree.

Our funds and accounts hold investments that include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our funds and accounts through trading activities or through purchases of securities from the issuer. In addition, our funds and accounts may acquire minority equity interests, particularly when sponsoring investments as part of a large investor consortium, and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the funds or accounts retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the

Table of Contents

value of investments by our funds or accounts could decrease and our financial condition, results of operations and cash flow could be adversely affected. Approximately 40% of the investments in our private equity portfolio consist of structured minority investments or investments in portfolio companies in which we share substantive control rights with two or more other private equity sponsors.

We expect to make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.

Many of our funds and accounts invest a significant portion of their assets in the equity, debt, loans or other securities of issuers that are based outside of the United States. A substantial amount of these investments consist of private equity investments made by our private equity funds. For example, as of December 31, 2009, approximately 39.7% of the unrealized value of the investments of those funds and accounts was attributable to foreign investments. Investing in companies that are based in countries outside of the United States and, in particular, in emerging markets such as China, India and Turkey, involves risks and considerations that are not typically associated with investments in companies established in the United States. These risks may include the following:

- the possibility of exchange control regulations, restrictions on repatriation of profit on investments or of capital invested, political and social instability, nationalization or expropriation of assets;
- the imposition of non-U.S. taxes;
- differences in the legal and regulatory environment or enhanced legal and regulatory compliance;
- limitations on borrowings to be used to fund acquisitions or dividends;
- political hostility to investments by foreign or private equity investors;
- less liquid markets;
- reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms;
- adverse fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another;
- higher rates of inflation;
- less available current information about an issuer;
- higher transaction costs;
- less government supervision of exchanges, brokers and issuers;

- less developed bankruptcy and other laws;
- difficulty in enforcing contractual obligations;
- lack of uniform accounting, auditing and financial reporting standards;
- less stringent requirements relating to fiduciary duties;
- fewer investor protections; and
- greater price volatility.

Certain legislation has recently been adopted in Australia, Denmark, Germany, and Italy, among other countries, that limits the tax deductibility of interest expense incurred by companies in those countries. These measures will most likely adversely affect Danish and German portfolio companies in

Table of Contents

which our private equity funds have investments and limit the benefits of additional investments in those countries.

Although we expect that most of our funds' and accounts' capital commitments will be denominated in U.S. dollars, investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, levels of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that such strategies will be effective. If we engage in hedging transactions, we may be exposed to additional risks associated with such transactions. See " Risk management activities may adversely affect the return on our investments."

Third party investors in our funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.

Investors in certain of our funds make capital commitments to those funds that the funds are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for such funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. To date, we have not had investors fail to honor capital calls to any meaningful extent. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may in the future also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

Our equity investments and many of our debt investments often rank junior to investments made by others, exposing us to greater risk of losing our investment.

In many cases, the companies in which our funds invest have, or are permitted to have, outstanding indebtedness or equity securities that rank senior to our fund's investment. By their terms, such instruments may provide that their holders are entitled to receive payments of distributions, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of its investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

Risk management activities may adversely affect the return on our investments.

When managing exposure to market risks, we employ hedging strategies or certain forms of derivative instruments to 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

Table of Contents

rates. The scope of risk management activities undertaken by us varies based on the level and volatility of interest rates, prevailing foreign currency exchange rates, the types 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 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.

The success of any hedging or other derivative transactions that we enter into generally will depend on our ability to correctly predict market changes. As a result, while we may enter into such transactions in order to reduce our exposure to market risks, unanticipated market changes may result in poorer overall investment performance than if the hedging or other derivative 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 may not seek or be successful in establishing a perfect correlation between the instruments used in hedging or other derivative transactions and the positions being hedged. An imperfect correlation could prevent us from achieving the intended result and could give rise to a loss. In addition, it may not be possible to fully or perfectly limit our exposure against all changes in the value of its investments, because the value of investments is likely to fluctuate as a result of a number of factors, some of which will be beyond our control or ability to hedge.

Certain of our funds may make a limited number of investments, or investments that are concentrated in certain geographic regions or asset types, which could negatively affect their performance to the extent those concentrated investments perform poorly.

The governing agreements of our funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. Our private equity funds generally permit up to 20% of the fund to be invested in a single company. Our most recent fully invested private equity fund focused primarily in North America, the Millennium Fund, made investments in approximately 30 portfolio companies with the largest single investment representing 8.6% of invested capital. During periods of difficult market conditions or slowdowns in these sectors or geographic regions, decreased revenues, difficulty in obtaining access to financing and increased funding costs may be exacerbated by this concentration of investments, which would result in lower investment returns. Because a significant portion of a fund's capital may be invested in a single investment or portfolio company, a loss with respect to such investment or portfolio company could have a significant adverse impact on such fund's capital. Accordingly, a lack of diversification on the part of a fund could adversely affect a fund's performance and therefore, our financial condition and results of operations.

Our funds and accounts may make investments that could give rise to a conflict of interest.

Our funds and accounts invest in a broad range of asset classes throughout the corporate capital structure. These investments include investments in corporate loans and debt securities, preferred equity securities and common equity securities. In certain cases, we may manage separate funds or accounts that invest in different parts of the same company's capital structure. For example, our fixed income funds may invest in different classes of the same company's debt and may make debt investments in a company that is owned by one of our private equity funds. In those cases, the interests of our funds and accounts may not always be aligned, which could create actual or potential conflicts of interest or the appearance of such conflicts. For example, one of our private equity funds could have an

Table of Contents

interest in pursuing an acquisition, divestiture or other transaction that, in its judgment, could enhance the value of the private equity investment, even though the proposed transaction would subject one of our fixed income fund's debt investments to additional or increased risks. Similarly, a decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund or account may give rise to a potential conflict of interest when it results in our having to restrict the ability of other funds or accounts to take any action. Finally, our ability to effectively implement a public securities strategy may be limited to the extent that contractual obligations entered into in the ordinary course of our traditional private equity business impose restrictions on our engaging in transactions that we may be interested in otherwise pursuing.

We may also cause different private equity funds to invest in a single portfolio company, for example where the fund that made an initial investment no longer has capital available to invest. Conflicts may also arise where we make principal investments for our own account. In certain cases, we will require that a transaction or investment be approved by an independent valuation expert, be subject to a fairness opinion, be based on arms-length pricing data or be calculated in accordance with a formula provided for in a fund's governing documents prior to the completion of the relevant transaction to address potential conflicts of interest. Such instances include principal transactions where we or our affiliates warehouse an investment in a portfolio company for the benefit of one or more of our funds or accounts pending the contribution of committed capital by the investors in such funds or accounts, follow-on investments by a fund other than a fund which made an initial investment in a company or transactions in which we arrange for one of our funds or accounts to buy a security from, or sell a security to, another one of our funds or accounts. In addition, we or our affiliates may receive fees or other compensation in connection with specific transactions that may give rise to conflicts. Appropriately dealing with conflicts of interest is complex and difficult and we could suffer reputational damage or potential liability if we fail, or appear to fail, to deal appropriately with conflicts as they arise. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation which could in turn materially adversely affect our business in a number of ways, including as a result of an inability to raise additional funds and a reluctance of counterparties to do business with us.

If KFN were deemed to be an "investment company" subject to regulation under the Investment Company Act, applicable restrictions could have an adverse effect on our business.

Our business would be adversely affected if KFN, the publicly traded specialty finance company managed by us, was to be deemed to be an investment company under the Investment Company Act. A person will generally be deemed to be an "investment company" for purposes of the Investment Company Act if, absent an available exception or exemption, it (i) is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or (ii) owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We believe KFN is not and does not propose to be primarily engaged in the business of investing, reinvesting or trading in securities, and we do not believe that KFN has held itself out as such. KFN conducts its operations primarily through its majority owned subsidiaries, each of which is excepted from the definition of an investment company under the Investment Company Act. KFN monitors its holdings regularly to confirm its continued compliance with the 40% test described in clause (ii) above, and restricts its subsidiaries with respect to the assets in which each of them can invest and/or the types of securities each of them may issue in order to ensure conformity with exceptions provided by, and rules and regulations promulgated under, the Investment Company Act. If the SEC were to disagree with KFN's treatment of one or more of its subsidiaries as being excepted from the Investment Company Act, with its determination that one or more of its other holdings are not investment securities for purposes of the 40% test, or with its determinations as to the nature of its business or the manner in which it holds itself out, KFN and/or one or more of its subsidiaries could be

Table of Contents

required either (i) to change substantially the manner in which it conducts its operations to avoid being subject to the Investment Company Act or (ii) to register as an investment company. Either of these would likely have a material adverse effect on KFN, its ability to service its indebtedness and to make distributions on its shares, and on the market price of its shares and securities, and could thereby materially adversely affect our business, financial condition and results of operations.

Risks Related to this Offering and Our Common Units

The requirements of being a public entity and sustaining growth may strain our resources.

Following the U.S. Listing, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, and requirements of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. These requirements may place a strain on our systems and resources. The Exchange Act will require that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act will require that we maintain effective disclosure controls and procedures and internal controls over financial reporting, which are discussed below. In order to maintain and improve the effectiveness of our disclosure controls and procedures, significant resources and management oversight will be required. We will be implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. In addition, sustaining our growth will also require us to commit additional management, operational and financial resources to identify new professionals to join the firm and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. We may also incur costs that we have not previously incurred for expenses for compliance with the Sarbanes-Oxley Act and rules of the SEC and the New York Stock Exchange, hiring additional accounting, legal and administrative personnel, and various other costs related to being a public company.

We have not evaluated our internal controls over financial reporting for purposes of compliance with Section 404 of the Sarbanes-Oxley Act.

We have not previously been required to comply with the requirements of the Sarbanes-Oxley Act, including the internal control evaluation and certification requirements of Section 404 of that statute, and we will not be required to comply with all of those requirements until after we have been subject to the reporting requirements of the Exchange Act for a specified period of time. Accordingly, we have not determined whether or not our existing internal controls over financial reporting systems comply with Section 404. The internal control evaluation required by Section 404 will divert internal resources and will take a significant amount of time, effort and expense to complete. If it is determined that we are not in compliance with Section 404, we will be required to implement remedial procedures and re-evaluate our internal control over financial reporting. We may experience higher than anticipated operating expenses as well as higher independent auditor and consulting fees during the implementation of these changes and thereafter. Further, we may need to hire additional qualified personnel in order for us to comply with Section 404. If we are unable to implement any necessary changes effectively or efficiently, our operations, financial reporting or financial results could be adversely affected and we could obtain an adverse report on internal controls from our independent registered public accountants. In particular, if we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent registered public accountants may not be able to certify as to the effectiveness of our internal control over financial reporting. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis and thereby subject us to adverse regulatory consequences, including sanctions by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us and lead to a decline in the market price of our units.

As a limited partnership, we would qualify for some exemptions from the corporate governance and other requirements of the New York Stock Exchange.

We are a limited partnership and as a result would qualify for exceptions from certain corporate governance and other requirements of the rules of the New York Stock Exchange. Pursuant to these exceptions, limited partnerships may, and we intend to, elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including the requirements: (i) that the listed company have a nominating and corporate governance committee that is composed entirely of independent directors; and (ii) that the listed company have a compensation committee that is composed entirely of independent directors. In addition, as a limited partnership, we will not be required to hold annual unitholder meetings. Accordingly, you will not have the same protections afforded to equity holders of entities that are subject to all of the corporate governance requirements of the New York Stock Exchange.

Our founders are able to determine the outcome of any matter that may be submitted for a vote of our limited partners.

KKR Holdings owns 70% of the KKR Group Partnership Units and our principals generally have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of the holders of our common units, including a merger or consolidation of our business, a sale of all or substantially all of our assets and amendments to our partnership agreement that may be material to holders of our common units. In addition, our limited partnership agreement contains provisions that enable us to take actions that would materially and adversely affect all holders of our common units or a particular class of holders of common units upon the majority vote of all outstanding voting units, and since more than a majority of our voting units are controlled by our principals, our principals have the ability to take actions that could materially and adversely affect the holders of our common units either as a whole or as a particular class.

The voting rights of holders of our common units are further restricted by provisions in our limited partnership agreement stating that any of our common units held by a person that beneficially owns 20% or more of any class of our common units then outstanding (other than our Managing Partner or its affiliates, or a direct or subsequently approved transferee of our Managing Partner or its affiliates) cannot be voted on any matter. Our limited partnership agreement also contains provisions limiting the ability of the holders of our common units to call meetings, to acquire information about our operations, and to influence the manner or direction of our management. Our limited partnership agreement does not restrict our Managing Partner's ability to take actions that may result in our partnership being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. Furthermore, holders of our common units would not be entitled to dissenters' rights of appraisal under our limited partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event.

Our limited partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our Managing Partner and limit remedies available to unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for unitholders to successfully challenge a resolution of a conflict of interest by Managing Partner or by its conflicts committee.

Our limited partnership agreement contains provisions that require holders of our common units to waive or consent to conduct by our Managing Partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our limited partnership agreement provides that when our Managing Partner is acting in its individual capacity, as opposed to in its capacity as our Managing Partner, it may act without any fiduciary obligations to holders of our common units, whatsoever. When our Managing Partner, in its capacity as our general partner, or our conflicts committee is permitted to or required to make a decision in its "sole discretion" or "discretion" or that it deems "necessary or appropriate" or "necessary or advisable," then our Managing Partner or the conflicts committee will be entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any holder of our common units and will not be subject to any different standards imposed by our limited partnership agreement, the Delaware Revised Uniform Limited Partnership Act, which is referred to as the Delaware Limited Partnership Act, or under any other law, rule or regulation or in equity.

The above modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and holders of our common units will only have recourse and be able to seek remedies against our Managing Partner if our Managing Partner breaches its obligations pursuant to our limited partnership agreement. Unless our Managing Partner breaches its obligations pursuant to our limited partnership agreement, we and holders of our common units will not have any recourse against our Managing Partner even if our Managing Partner were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our limited partnership agreement, our limited partnership agreement provides that our Managing Partner and its officers and directors will not be liable to us or holders of our common units, for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that our Managing Partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These provisions are detrimental to the holders of our common units because they restrict the remedies available to unitholders for actions that without such limitations might constitute breaches of duty including fiduciary duties.

Whenever a potential conflict of interest exists between us and our Managing Partner, our Managing Partner may resolve such conflict of interest. If our Managing Partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our Managing Partner, then it will be presumed that in making this determination, our Managing Partner acted in good faith. A holder of our common units seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our Managing Partner obtains the approval of the conflicts committee of our Managing Partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our Managing Partner of any duties it may owe to us or holders of our common units. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. If you receive a common unit, you will be treated as having consented to the provisions set forth in our limited partnership agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee. See "Conflicts of Interest and Fiduciary Responsibilities."

There may not be an active U.S. market for our common units, which may cause our common units to trade at a discounted price and make it difficult to sell the common units you receive.

Prior to the U.S. Listing our units were not listed on a U.S. securities exchange. It is possible that an active market for our common units will not develop, which would make it difficult for you to sell your common units at an attractive price or at all. As no current holders of our common units are obligated to sell any units, volume of trading in our common units may be very limited.

The market price and trading volume of our common units may be volatile, which could result in rapid and substantial losses for our common unitholders.

Even if an active U.S. trading market for our common units develops, the market price of our common units may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common units may fluctuate and cause significant price variations to occur. If the market price of our common units declines significantly, you may be unable to sell your common units at an attractive price, if at all. The market price of our common units may fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our common units or result in fluctuations in the price or trading volume of our common units include:

- variations in our quarterly operating results or distributions, which may be substantial;
- our policy of taking a long-term perspective on making investment, operational and strategic decisions, which is expected to result in significant and unpredictable variations in our quarterly returns;
- failure to meet analysts' earnings estimates;
- publication of research reports about us or the investment management industry or the failure of securities analysts to cover our common units after this offering;
- additions or departures of our principals and other key management personnel;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- changes in market valuations of similar companies;
- speculation in the press or investment community;
- changes or proposed changes in laws or regulations or differing interpretations thereof affecting our business or enforcement of these laws and regulations, or announcements relating to these matters;
- a lack of liquidity in the trading of our common units;
- adverse publicity about the asset management industry generally or individual scandals, specifically; and
- general market and economic conditions.

An investment in our common units is not an investment in any of our funds, and the assets and revenues of our funds are not directly available to us.

This prospectus solely relates to our common units, and is not an offer directly or indirectly of any securities of any of our funds. Our common units are securities of KKR & Co. L.P. only. While our historical consolidated and combined financial information includes financial information, including assets and revenues, of certain funds on a consolidated basis, and our future financial information will continue to consolidate certain of these funds, such assets and revenues are available to the fund and not to us except to a limited extent through management fees, carried interest or other incentive income, distributions and other proceeds arising from agreements with funds, as discussed in more detail in this prospectus.

Our common unit price may decline due to the large number of common units eligible for future sale, for exchange, and issuable pursuant to our equity incentive plan.

The market price of our common units could decline as a result of sales of a large number of common units in the market after the offering or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a price that we deem appropriate. Following the U.S. Listing and In-Kind Distribution, we will have 204,902,226 common units outstanding (excluding KKR Group Partnership Units owned by KKR Holdings) and, upon completion of this offering, we will have common units outstanding or common units outstanding assuming the underwriters exercise in full their option to purchase additional common units from us, in each case excluding common units beneficially owned by KKR Holdings in the form of KKR Group Partnership Units discussed below and common units available for future issuance under the KKR & Co. L.P. Equity Incentive Plan, which we refer to as our Equity Incentive Plan. All of the common units issued in this offering will be freely tradable without restriction or further registration under the Securities Act by persons other than our "affiliates." See "Common Units Eligible for Future Sale." We, KKR Holdings and all of the directors and officers of our Managing Partner will enter into lock-up agreements with the underwriters of the offering and will agree not to dispose of or hedge any of our common units, subject to specified exceptions, through the date that is days after the date of this prospectus, except with the prior written consent of on behalf of the underwriters of the offering. After the expiration of the applicable lock-up period, these common units will be eligible for resale from time to time, subject to certain contractual restrictions and Securities Act limitations. Under certain circumstances, the applicable lock-up period may be extended. See "Underwriting." Subject to lock-up restrictions described under "Underwriting," we may issue and sell in the future additional common units.

KKR Holdings owns 478,105,194 KKR Group Partnership Units that may be exchanged, up to four times each year, for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. Except for interests held by our founders and certain interests held by other executives that were vested upon grant, interests in KKR Holdings that are held by our principals are subject to time based vesting over a 5-year period or performance based vesting and, following such vesting, additional restrictions on exchange for a period of one or two years. The common units issued upon such exchanges would be "restricted securities," as defined in Rule 144 under the Securities Act, unless we register such issuances. However, we will enter into a registration rights agreement with KKR Holdings that will require us to register these common units under the Securities Act. The market price of our common units could decline as a result of the exchange or the perception that an exchange may occur of a large number of KKR Group Partnership Units for our common units. These exchanges, or the possibility that these exchanges may occur, also might make it more difficult for holders of our common units to sell our common units in the future at a time and at a price that they deem appropriate.

As discussed above, we may issue additional common units pursuant to our Equity Incentive Plan. The total number of common units which may initially be issued under our Equity Incentive Plan is equivalent to 15% of the number of fully diluted common units outstanding as of the effective date of the plan. See "Management KKR & Co. L.P. Equity Incentive Plan." The amount may be increased each year to the extent that we issue additional equity. In addition, our limited partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our Managing Partner in its sole discretion without the approval of our unitholders, including awards representing our common units under the Equity Incentive Plan. In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partner interests that have designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to our common units.

Risks Related to Our Organizational Structure

Potential conflicts of interest may arise among our Managing Partner, our affiliates and us. Our Managing Partner and our affiliates have limited fiduciary duties to us and the holders of KKR Group Partnership Units, which may permit them to favor their own interests to our detriment and that of the holder of KKR Group Partnership Units.

Our Managing Partner, which is our general partner, will manage the business and affairs of our business, and will be governed by a board of directors that is co-chaired by our founders, who also serve as our Co-Chief Executive Officers. Conflicts of interest may arise among our Managing Partner and its affiliates, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our Managing Partner may favor its own interests and the interests of its affiliates over us and our unitholders. These conflicts include, among others, the following:

- Our Managing Partner determines the amount and timing of the KKR Group Partnership's investments and dispositions, indebtedness, issuances of additional partner interests, tax liabilities and amounts of reserves, each of which can affect the amount of cash that is available for distribution to holders of KKR Group Partnership Units;

- Our Managing Partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties, including fiduciary duties, to us. For example, our affiliates that serve as the general partners of our funds have fiduciary and contractual obligations to our fund investors, and such obligations may cause such affiliates to regularly take actions that might adversely affect our near-term results of operations or cash flow. Our Managing Partner will have no obligation to intervene in, or to notify us of, such actions by such affiliates;

- Because our principals will indirectly hold their KKR Group Partnership Units through entities that are not subject to corporate income taxation and we will hold some of the KKR Group Partnership Units through a wholly owned subsidiary that is taxable as a corporation, conflicts may arise between our principals and us relating to the selection and structuring of investments, declaring distributions and other matters;

- As discussed above, our Managing Partner has limited its liability and reduced or eliminated its duties, including fiduciary duties, under our partnership agreement, while also restricting the remedies available to holders of KKR Group Partnership Units for actions that, without these limitations, might constitute breaches of duty, including fiduciary duties. In addition, we have agreed to indemnify our Managing Partner and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By receiving our common units, you will have agreed and consented to the provisions set forth in our partnership agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable law;

- Our partnership agreement does not restrict our Managing Partner from paying us or our affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under our partnership agreement. The conflicts committee will be responsible for, among other things, enforcing our rights and those of our unitholders under certain agreements, against KKR Holdings and certain of its subsidiaries and designees, a general partner or limited partner of KKR Holdings, or a person who holds a partnership or equity interest in the foregoing entities;

Our Managing Partner determines how much debt we incur and that decision may adversely affect any credit ratings we receive;

Our Managing Partner determines which costs incurred by it and its affiliates are reimbursable by us;

Other than as set forth in the confidentiality and restrictive covenant agreements to which our principals are subject, which may not be enforceable by KKR or otherwise waived, modified or amended, affiliates of our Managing Partner and existing and former personnel employed by our Managing Partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us;

Our Managing Partner controls the enforcement of obligations owed to the KKR Group Partnerships by us and our affiliates; and

Our Managing Partner or our Managing Partner conflicts committee decides whether to retain separate counsel, accountants or others to perform services for us.

See "Certain Relationships and Related Party Transactions" and "Conflicts of Interest and Fiduciary Responsibilities."

Certain actions by our Managing Partner's board of directors require the approval of the Class A shares of our Managing Partner, all of which are held by our senior principals.

All of our Managing Partner's outstanding Class A shares are held by our senior principals. Although the affirmative vote of a majority of the directors of our Managing Partner is required for any action to be taken by our Managing Partner's board of directors, certain specified actions approved by our Managing Partner's board of directors will also require the approval of a majority of the Class A shares of our Managing Partner. These actions consist of the following:

the entry into a debt financing arrangement by us in an amount in excess of 10% of our existing long-term indebtedness (other than the entry into certain intercompany debt financing arrangements);

the issuance by our partnership or our subsidiaries of any securities that would (i) represent, after such issuance, or upon conversion, exchange or exercise, as the case may be, at least 5% on a fully diluted, as converted, exchanged or exercised basis, of any class of our or their equity securities or (ii) have designations, preferences, rights, priorities or powers that are more favorable than those of KKR Group Partnership Units;

the adoption by us of a shareholder rights plan;

the amendment of our limited partnership agreement or the limited partnership agreements of the KKR Group Partnerships;

the exchange or disposition of all or substantially all of our assets or the assets of any KKR Group Partnership;

the merger, sale or other combination of the partnership or any KKR Group Partnership with or into any other person;

the transfer, mortgage, pledge, hypothecation or grant of a security interest in all or substantially all of the assets of the KKR Group Partnerships;

Table of Contents

- the appointment or removal of a Chief Executive Officer or a Co-Chief Executive Officer of our Managing Partner or our partnership;

- the termination of the employment of any of our officers or the officers of any of our subsidiaries or the termination of the association of a partner with any of our subsidiaries, in each case, without cause;

- the liquidation or dissolution of the partnership, our Managing Partner or any KKR Group Partnership; and

- the withdrawal, removal or substitution of our Managing Partner as our general partner or any person as the general partner of a KKR Group Partnership, or the transfer of beneficial ownership of all or any part of a general partner interest in our partnership or a KKR Group Partnership to any person other than one of its wholly owned subsidiaries.

Messrs. Kravis and Roberts collectively hold Class A shares representing a majority of the total voting power of the outstanding Class A shares. While neither of them acting alone will be able to control the voting of the Class A shares, they will be able to control the voting of such shares if they act together.

Our common unitholders do not elect our Managing Partner or vote on our Managing Partner's directors and have limited ability to influence decisions regarding our business.

Our common unitholders do not elect our Managing Partner or its board of directors and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our business and therefore limited ability to influence decisions regarding our business. Furthermore, if our common unitholders are dissatisfied with the performance of our Managing Partner, they have no ability to remove our Managing Partner, with or without cause.

The control of our Managing Partner may be transferred to a third party without our consent.

Our Managing Partner may transfer its general partner interest to a third party in a merger or consolidation or in a transfer of all or substantially all of its assets without our consent or the consent of our common unitholders. Furthermore, the members of our Managing Partner may sell or transfer all or part of their limited liability company interests in our Managing Partner without our approval, subject to certain restrictions as described elsewhere in this prospectus. A new general partner may not be willing or able to form new funds and could form funds that have investment objectives and governing terms that differ materially from those of our current funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as our track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

We intend to pay periodic distributions to the holders of our common units, but our ability to do so may be limited by our holding company structure and contractual restrictions.

We intend to pay cash distributions on a quarterly basis. We are a holding company and will have no material assets other than the KKR Group Partnership Units that we will hold through wholly-owned subsidiaries and will have no independent means of generating income. Accordingly, we intend to cause the KKR Group Partnerships to make distributions on the KKR Group Partnership Units, including KKR Group Partnership Units that we directly or indirectly hold, in order to provide us with sufficient amounts to fund distributions we may declare. If the KKR Group Partnerships make such distributions, other holders of KKR Group Partnership Units, including KKR Holdings, will be entitled to receive equivalent distributions pro rata based on their KKR Group Partnership Units, as described under "Distribution Policy."

The declaration and payment of any future distributions will be at the sole discretion of our Managing Partner, which may change our distribution policy at any time. Our Managing Partner will take into account general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, compensation expense, working capital requirements and anticipated cash needs, contractual restrictions and obligations (including payment obligations pursuant to the tax receivable agreement), legal, tax and regulatory restrictions, restrictions or other implications on the payment of distributions by us to the holders of KKR Group Partnership Units or by our subsidiaries to us and such other factors as our Managing Partner may deem relevant. Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. Furthermore, by paying cash distributions rather than investing that cash in our businesses, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise.

Our ability to characterize such distributions as capital gains or qualified dividend income may be limited, and you should expect that some or all of such distributions may be regarded as ordinary income.

We will be required to pay our principals for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we receive in connection with subsequent exchanges of our common units and related transactions.

We and our intermediate holding company may be required to acquire KKR Group Partnership Units from time to time pursuant to our exchange agreement with KKR Holdings. To the extent this occurs, the exchanges are expected to result in an increase in our intermediate holding company's share of the tax basis of the tangible and intangible assets of KKR Management Holdings L.P., primarily attributable to a portion of the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of income tax our intermediate holding company would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

We are party to a tax receivable agreement with KKR Holdings requiring our intermediate holding company to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding company actually realizes as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding company actually realizes as a result of increases in tax basis that arise due to future payments under the agreement. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. This payment obligation will be an obligation of our intermediate holding company and not of either KKR Group Partnership. In the event that any of our current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, we expect that each such entity will become subject to a tax receivable agreement with substantially similar terms. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement,

Table of Contents

will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our taxable income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of the KKR Group Partnerships, the payments that we may be required to make to our existing owners will be substantial. The payments under the tax receivable agreement are not conditioned upon our existing owners' continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreement as a result of timing discrepancies or otherwise. In particular, our intermediate holding company's obligations under the tax receivable agreement would be effectively accelerated in the event of an early termination of the tax receivable agreement by our intermediate holding company or in the event of certain mergers, asset sales and other forms of business combinations or other changes of control. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity.

Payments under the tax receivable agreement will be based upon the tax reporting positions that our Managing Partner will determine. We are not aware of any issue that would cause the IRS to challenge a tax basis increase. However, neither KKR Holdings nor its transferees will reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase, or the tax benefits we claim arising from such increase, is successfully challenged by the IRS. As a result, in certain circumstances, payments to KKR Holdings or its transferees under the tax receivable agreement could be in excess of the intermediate holding company's cash tax savings. The intermediate holding company's ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

If we were deemed to be an "investment company" subject to regulation under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

A person will generally be deemed to be an "investment company" for purposes of the Investment Company Act if:

- it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or

- absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of our total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis.

We believe that we are engaged primarily in the business of providing asset management services and not in the business of investing, reinvesting or trading in securities. We regard ourselves as an asset management firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that we are an "orthodox" investment company as defined in Section 3(a)(1)(A) of the Investment Company Act and described in the first bullet point above.

With regard to the provision described in the second bullet point above, we have no material assets other than our equity interest as general partner of one of the KKR Group Partnerships and our equity interest in a wholly owned subsidiary, which in turn has no material assets other than the equity interest as general partner of the other KKR Group Partnership. Through these interests, we will directly or indirectly be the sole general partners of the KKR Group Partnerships and will be vested with all management and control over the KKR Group Partnerships. We do not believe our equity interest in our wholly owned subsidiary or our equity interests directly or through our wholly owned

Table of Contents

subsidiary in the KKR Group Partnerships are investment securities. Moreover, because we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities, we believe that if other exemptions to registration under the Investment Company Act were to cease to apply, then less than 40% of the partnership's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis would be comprised of assets that could be considered investment securities. In this regard, as a result of the Combination Transaction, we succeeded to a significant number of investment securities previously held by KPE and now held by our KKR Group Partnerships. We monitor these holdings regularly to confirm our continued compliance with the 40% test described in the second bullet point above. The need to comply with this 40% test may cause us to restrict our business and subsidiaries with respect to the assets in which we can invest and/or the types of securities we may issue, sell investment securities, including on unfavorable terms, acquire assets or businesses that could change the nature of our business or potentially take other actions which may be viewed as adverse by the holders of our common units, in order to ensure conformity with exceptions provided by, and rules and regulations promulgated under, the Investment Company Act.

The Investment Company Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the Investment Company Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that we will not be deemed to be an investment company under the Investment Company Act. If anything were to happen which would cause the partnership to be deemed to be an investment company under the Investment Company Act, requirements imposed by the Investment Company Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among the partnership, the KKR Group Partnerships and KKR Holdings, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal, potentially divest assets acquired in the Combination Transaction or otherwise conduct our business in a manner that does not subject it to the registration and other requirements of the Investment Company Act.

We are a Delaware limited partnership, and there are certain provisions in our limited partnership agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law (DGCL) in a manner that may be less protective of the interests of our common unitholders.

Our limited partnership agreement provides that to the fullest extent permitted by applicable law our directors or officers will not be liable to us. However, under the DGCL, a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders, (ii) intentional misconduct or knowing violations of the law that are not done in good faith, (iii) improper redemption of shares or declaration of dividend, or (iv) a transaction from which the director derived an improper personal benefit. In addition, our limited partnership agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent provided by law. However, under the DGCL, a corporation can only indemnify directors and officers for acts or omissions if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful. Accordingly, our limited partnership agreement may be less protective of the interests of our common unitholders, when compared to the DGCL, insofar as it relates to the exculpation and indemnification of our officers and directors.

Table of Contents

Risks Related to U.S. Taxation

If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to you would be substantially reduced and the value of our common units could be adversely affected.

The value of your investment in us depends in part on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code, and that our partnership not be registered under the Investment Company Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We may not meet these requirements or current law may change so as to cause, in either event, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject us to U.S. federal income tax. We have not requested, and do not plan to request, a ruling from the IRS, on this or any other matter affecting us.

If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal, state and local income tax on our taxable income at the applicable tax rates. Distributions to you would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would otherwise flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to you would be substantially reduced which could cause a reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for U.S. federal or state income tax purposes or otherwise subjecting us to entity level taxation. See "Risks Related to KKR's Business Legislation has been introduced in the U.S. Congress in various forms that, if enacted, (i) could preclude us from qualifying as a partnership and/or (ii) could tax carried interest as ordinary income for U.S. federal income tax purposes and require us to hold carried interest through taxable subsidiary corporations. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the market price of our common units." Because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to you would be reduced.

You will be subject to U.S. federal income tax on your share of our taxable income, regardless of whether you receive any cash distributions, and may recognize income in excess of cash distributions.

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Internal Revenue Code and we are not required to register as an investment company under the Investment Company Act on a continuing basis, and assuming there is no change in law, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. As a result, a U.S. unitholder will be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on its allocable share of our items of income, gain, loss, deduction and credit (including its allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within the unitholder's taxable year, regardless of whether or when such unitholder receives cash distributions. See "Risks Related to KKR's Business Legislation has been introduced in the U.S. Congress in various forms that, if enacted, (i) could preclude us from qualifying as a partnership and/or (ii) could tax carried interest as ordinary income for U.S. federal income tax purposes and require us to hold carried interest through taxable subsidiary corporations. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the market price of our common units."

Table of Contents

You may not receive cash distributions equal to your allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a controlled foreign corporation, or a CFC, a passive foreign investment company, or a PFIC, or entities treated as partnerships for U.S. federal income tax purposes, may produce taxable income prior to the receipt of cash relating to such income, and holders of our common units that are U.S. taxpayers may be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of the partnership status for which the IRS has granted limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require the holders of our common units to recognize additional amounts in income during the years in which they hold such units. In addition, because of our methods of allocating income and gain among holders of our common units, you may be taxed on amounts that accrued economically before you became a unitholder. Consequently, you may recognize taxable income without receiving any cash.

Although we expect that distributions we make should be sufficient to cover a holder's tax liability in any given year that is attributable to its investment in us, no assurances can be made that this will be the case. We will be under no obligation to make any such distribution and, in certain circumstances, may not be able to make any distributions or will only be able to make distributions in amounts less than a holder's tax liability attributable to its investment in us. Accordingly, each holder should ensure that it has sufficient cash flow from other sources to pay all tax liabilities.

Our interests in certain of our businesses will be held through an intermediate holding company, which will be treated as a corporation for U.S. federal income tax purposes; such corporation will be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of our common units.

In light of the publicly traded partnership rules under U.S. federal income tax laws and other requirements, we will hold our interest in certain of our businesses through an intermediate holding company, which will be treated as a corporation for U.S. federal income tax purposes. This intermediate holding company will be liable for U.S. federal income taxes on all of its taxable income and applicable state, local and other taxes. These taxes would reduce the amount of distributions available to be made on our common units. In addition, these taxes could be increased if the IRS were to successfully reallocate deductions or income of the related entities conducting our business.

Complying with certain tax-related requirements may cause us to invest through foreign or domestic corporations subject to corporate income tax or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.

In order for us to be treated as a partnership for U.S. federal income tax purposes and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis and we must not be required to register as an investment company under the Investment Company Act. In order to effect such treatment, we or our subsidiaries may be required to invest through foreign or domestic corporations subject to corporate income tax, or enter into acquisitions, borrowings, financings or other transactions we may not have otherwise entered into.

We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. federal income tax purposes.

Certain of our investments may be in foreign corporations or may be acquired through a foreign subsidiary that would be classified as a corporation for U.S. federal income tax purposes. Such an entity may be PFIC for U.S. federal income tax purposes. In addition, we may hold certain investments in foreign corporations that are treated as CFCs. Unitholders may experience adverse U.S. tax

Table of Contents

consequences as a result of holding an indirect interest in a PFIC or CFC. These investments may produce taxable income prior to the receipt of cash relating to such income, and unitholders that are U.S. taxpayers will be required to take such income into account in determining their taxable income. In addition, gain on the sale of a PFIC or CFC may be taxable at ordinary income rates. See "Material U.S. Federal Income Tax Considerations U.S. Taxes Consequences to U.S. Holders of Common Units Passive Foreign Investment Companies" and "Material U.S. Federal Income Tax Considerations Consequences to U.S. Holders of Common Units Controlled Foreign Corporations."

Tax gain or loss on disposition of our common units could be more or less than expected.

If you sell your common units, you will recognize a gain or loss equal to the difference between the amount realized and your adjusted tax basis allocated to those common units. Prior distributions to you in excess of the total net taxable income allocated to you will have decreased the tax basis in your common units. Therefore, such excess distributions will increase your taxable gain, or decrease your taxable loss, when the common units are sold and may result in a taxable gain even if the sale price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to you.

Unitholders may be allocated taxable gain on the disposition of certain assets, even if they did not share in the economic appreciation inherent in such assets.

We and our intermediate holding company will be allocated taxable gains and losses recognized by the KKR Group Partnerships based upon our percentage ownership in each KKR Group Partnership. Our share of such taxable gains and losses generally will be allocated pro rata to our unitholders. In some circumstances, under the U.S. federal income tax rules affecting partners and partnerships, the taxable gain or loss allocated to a unitholder may not correspond to that unitholder's share of the economic appreciation or depreciation in the particular asset. This is primarily an issue of the timing of the payment of tax, rather than a net increase in tax liability, because the gain or loss allocation would generally be expected to be offset as a unitholder sold units.

Non-U.S. persons face unique U.S. tax issues from owning our common units that may result in adverse tax consequences to them.

We may be, or may become, engaged in a U.S. trade or business for U.S. federal income tax purposes, including by reason of investments in U.S. real property holding corporations, in which case some portion of its income would be treated as effectively connected income with respect to non-U.S. holders, or ECI. To the extent our income is treated as ECI, non-U.S. unitholders generally would be subject to withholding tax on their allocable share of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable share of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. unitholders that are corporations may also be subject to a 30% branch profits tax on their actual or deemed distributions of such income. In addition, distributions to non-U.S. unitholders that are attributable to the sale of a U.S. real property interest may also be subject to 30% withholding tax. Also, non-U.S. unitholders may be subject to 30% withholding on allocations of our income that are U.S. source fixed or determinable annual or periodic income under the Internal Revenue Code, unless an exemption from or a reduced rate of such withholding applies and certain tax status information is provided.

Table of Contents

Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.

Generally, a tax-exempt partner of a partnership would be treated as earning unrelated business taxable income, or UBTI, if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partner interest itself is debt-financed. As a result of incurring acquisition indebtedness we will derive income that constitutes UBTI. Consequently, a holder of common units that is a tax-exempt organization will likely be subject to unrelated business income tax to the extent that its allocable share of our income consists of UBTI. In addition, a tax-exempt investor may be subject to unrelated business income tax on a sale of their common units.

We cannot match transferors and transferees of common units, and we will therefore adopt certain income tax accounting conventions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.

Because we cannot match transferors and transferees of common units, we will adopt depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our unitholders' tax returns.

In addition, our taxable income and losses will be determined and apportioned among investors using conventions we regard as consistent with applicable law. As a result, if you transfer your common units, you may be allocated income, gain, loss and deduction realized by us after the date of transfer. Similarly, a transferee may be allocated income, gain, loss and deduction realized by us prior to the date of the transferee's acquisition of our common units. A transferee may also bear the cost of withholding tax imposed with respect to income allocated to a transferor through a reduction in the cash distributed to the transferee.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes.

We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A termination of our partnership would, among other things, result in the closing of our taxable year for all unitholders. See "Material U.S. Federal Tax Considerations" for a description of the consequences of our termination for U.S. federal income tax purposes.

Holders of our common units may be subject to state and local taxes and return filing requirements as a result of owning such units.

In addition to U.S. federal income taxes, holders of our common units may be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if the holders of our common units do not reside in any of those jurisdictions. Holders of our common units may be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, holders of our common units may be subject to penalties for failure to comply with those requirements. It is the responsibility of each unitholder to file all U.S. federal, state and local tax returns that may be required of such unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of owning our units.

Table of Contents

We do not expect to be able to furnish to each unitholder specific tax information within 90 days after the close of each calendar year, which means that holders of common units who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax return.

As a publicly traded partnership, our operating results, including distributions of income, dividends, gains, losses or deductions, and adjustments to carrying basis, will be reported on Schedule K-1 and distributed to each unitholder annually. It may require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for the unitholders. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year. See "Material U.S. Federal Tax Considerations U.S. Taxes Administrative Matters Information Returns."

Table of Contents

USE OF PROCEEDS

We estimate that we will receive approximately $ of net proceeds from this offering after deducting estimated underwriting discounts and offering expenses, or $ if the underwriters exercise in full their option to purchase additional common units from us, in each case at the assumed offering price of $ based on the public offering price listed on the cover page of this prospectus. We intend to contribute the net proceeds we receive from this offering to the KKR Group Partnerships in exchange for newly issued units in the KKR Group Partnerships. We anticipate that the KKR Group Partnerships will use the proceeds they receive from us:

- to fund the continued growth of our existing asset management business, including through funding our general partner capital commitments to our funds;
- to provide capital to support the continued development of our capital markets business;
- to facilitate our expansion into complementary lines of business, including possibly through select strategic acquisitions; and
- for other general corporate purposes.

Pending the specific deployment of these proceeds, we expect to deploy the proceeds from this offering primarily in lower risk assets and cash. None of our principals are selling any common units or will otherwise receive any of the net proceeds from this offering.

Table of Contents

DISTRIBUTION POLICY

We intend to make quarterly cash distributions to holders of our common units in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of our asset management business each year in excess of amounts determined by our Managing Partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our investment funds and to comply with applicable law and any of our debt instruments or other agreements. For the purposes of our distribution policy, our cash earnings from our asset management business is expected to consist of (i) our fee related earnings net of taxes and certain other adjustments and (ii) carry distributions received from our investment funds and certain of our other investment vehicles that have not been allocated as part of our carry pool. We do not intend to distribute gains on principal investments, other than, potentially, certain tax distributions as discussed below.

Our distribution policy reflects our belief that distributing substantially all of the cash earnings of our asset management business will provide transparency for holders of our common units and impose on us an investment discipline with respect to the businesses and strategies that we pursue.

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

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

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

Third, we will distribute to holders of our units the amount of any distributions that we receive from our holding companies through which we invest.

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

Table of Contents

The actual amount and timing of distributions are subject to the sole discretion of the board of directors of our Managing Partner, and there can be no assurance that distributions will be made as intended or at all. In particular, the amount and timing of distributions will depend upon a number of factors, including, among others, our available cash and current and anticipated cash needs, including funding of investment commitments and debt service and future debt repayment obligations; general economic and business conditions; our strategic plans and prospects; our results of operations and financial condition; our capital requirements; legal, contractual and regulatory restrictions on the payment of distributions by us or our subsidiaries, including restrictions contained in our debt agreements, and such other factors as the board of directors of our Managing Partner considers relevant. We are not currently restricted by any contract from making distributions to our unitholders, although certain of our subsidiaries are bound by credit agreements that contain certain restricted payment and/or other covenants, which may have the effect of limiting the amount of distributions that we receive from our subsidiaries. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity Sources of Cash". In addition, under Section 17-607 of the Delaware Limited Partnership Act, we will not be permitted to make a distribution if, after giving effect to the distribution, our liabilities would exceed the fair value of our assets.

Prior to the Transactions, we made cash distributions to our principals when we received significant distributions from our funds. In addition, we made cash distributions to our senior principals annually in connection with the income received by our management companies. These distributions were not made pursuant to any agreement. For the fiscal years ended December 31, 2008 and 2009, we made cash distributions of $250.4 million and $211.1 million, respectively, to our principals.

Table of Contents

CAPITALIZATION

The following table presents our consolidated cash and cash equivalents and capitalization as of December 31, 2009:

- on an actual basis; and
- on an as adjusted basis giving effect to this offering.

You should read this information together with the information included elsewhere in this prospectus, including the information set forth under "Organizational Structure," "Unaudited Pro Forma Financial Information," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the accompanying financial statements and related notes thereto.

	December 31, 2009	
	Actual	As Adjusted
	($ in thousands)	
Cash and Cash Equivalents	$ 546,739	$
Cash and Cash Equivalents Held at Consolidated Entities	282,091	
Restricted Cash and Cash Equivalents	72,298	
Total Cash, Cash Equivalents and Restricted Cash	$ 901,128	$
Debt Obligations	$ 2,060,185	$
Noncontrolling Interests in Consolidated Entities	$ 23,275,272	
Noncontrolling Interests Attributable to KKR Holdings	3,072,360	
Group Holdings Partners' Capital	1,012,656	
Accumulated Other Comprehensive Income	1,193	
Total Group Holdings Partners' Capital(1)	$ 1,013,849	$
Total Capitalization	$ 29,421,666	$

(1) Total Group Holdings partners' capital reflects only the portion of equity attributable to Group Holdings (reflecting KKR Guernsey's 30% interest in our Combined Business) and differs from partners' capital reported on a segment basis primarily as a result of the exclusion of the following items from our segment presentation: (i) the impact of income taxes; (ii) charges relating to the amortization of intangible assets; (iii) non-cash equity based charges; and (iv) allocations of equity to KKR Holdings. For a reconciliation to the $4,152.9 million of partners' capital reported on a segment basis, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Segment Partners' Capital." KKR Holdings' 70% interest in our Combined Business is reflected as

noncontrolling interests held by KKR Holdings and is not included in total Group Holdings partners' capital.

Table of Contents

DILUTION

If you invest in our common units, your interest will be diluted to the extent of the difference between the offering price per common unit and the pro forma net tangible book value per common unit after this offering. Dilution results from the fact that the offering price per common unit is substantially in excess of the net tangible book value per common unit attributable to existing unitholders.

Our net tangible book value as of December 31, 2009 was approximately $ million, or $ per common unit based on common units outstanding as of December 31, 2009.

After giving effect to the receipt and our intended use of approximately $ million of estimated net proceeds from our sale of common units in this offering at an assumed offering price of $ per common unit (based on the public offering price listed on the cover page of this prospectus), our adjusted net tangible book value as of December 31, 2009 would have been approximately $ million, or $ per common unit. This represents an immediate increase in the adjusted net tangible book value of $ per common unit to existing common unitholders and an immediate dilution of $ per common unit to new unitholders purchasing common units in this offering. The following table illustrates this substantial and immediate per common unit dilution to new unitholders:

The following table illustrates this dilution on a per common unit basis assuming the underwriters do not exercise their option to purchase additional common units.

Assumed initial public offering price per common unit		$
Pro forma net tangible book value per common unit as of December 31, 2009	$	
Increase in pro forma net tangible book value per common unit attributable to new unitholders		
As adjusted net tangible book value per common unit after the offering		
Dilution in pro forma net tangible book value per common unit to new unitholders		$

A $1.00 increase (decrease) in the assumed initial public offering price of $ per common unit (based on the public offering price listed on the cover page of this prospectus) would increase (decrease) our adjusted net tangible book value by $, the adjusted net tangible book value per common unit after this offering by $ and the dilution in net tangible book value per common unit to new unitholders in this offering by $, assuming the number of common units offered by us in this offering, as set forth in "Summary The Offering," remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us in this offering.

If the underwriters exercise their option to purchase additional common units in full, the adjusted net tangible book value per common unit after this offering would be $, and the dilution in the adjusted net tangible book value per common unit to new unitholders in this offering would be $.

The following table summarizes, on the same as adjusted basis as of December 31, 2009, the total number of common units purchased from us, the total cash consideration paid to us and the average price per common unit paid by existing unitholders and by new unitholders purchasing common units in this offering, assuming that all of the holders of KKR Group Partnership Units (other than our

Table of Contents

intermediate holding company) exchanged their KKR Group Partnership Units for newly-issued common units on a one-for-one basis.

	Common Units Purchased		Total Consideration		Average Price Per Common Unit
	Number	Percent	Amount	Percent	
Existing unitholders					
New unitholders					
Total					

Table of Contents

ORGANIZATIONAL STRUCTURE

The following diagram illustrates the ownership and organizational structure that we will have upon the completion of the Offering Transactions.

Notes:

(1) KKR Management LLC serves as the general partner of KKR & Co. L.P. As a result, it indirectly controls the Combined Business. KKR Management LLC does not hold any economic interests in KKR & Co. L.P.

(2) KKR & Co. L.P. serves as the holding company and listing vehicle for the Combined Business.

(3) Upon completion of the U.S. Listing and In-Kind Distribution, KKR Holdings will hold special voting units in our partnership that will entitle it to cast, with respect to those limited matters that may be submitted to a vote of our unitholders, a number of votes equal to the number of KKR Group Partnership Units that it holds from time to time. See also Note 5 below.

(4) Because the income of KKR Management Holdings L.P. is likely to be primarily non-qualifying income for purposes of the qualifying income exception to the publicly traded partnership rules, we formed KKR Management Holdings Corp., which is subject to taxation

as a corporation for U.S. federal income tax purposes to hold our KKR Group Partnership Units in KKR Management Holdings L.P. Accordingly, our allocable share of the taxable income of KKR Management Holdings L.P. will be subject to taxation at a corporate rate. KKR Management Holdings L.P., which is treated as a partnership for U.S. federal income tax purposes, was formed to hold interests in our fee generating businesses and other assets that may not generate qualifying income

Table of Contents

for purposes of the qualifying income exception to the publicly traded partnership rules. KKR Fund Holdings L.P., which is also treated as a partnership for U.S. federal income tax purposes, was formed to hold interests in our businesses and assets that will generate qualifying income for purposes of the qualifying income exception to the publicly traded partnership rules. A portion of the assets held by KKR Fund Holdings L.P. and certain other assets that may generate qualifying income are also owned by KKR Management Holdings L.P. Except for KKR Management Holdings Corp. and certain of our foreign subsidiaries that are taxable as corporations for U.S. federal income tax purposes, all of our subsidiaries are treated as partnerships or disregarded entities for U.S. federal income tax purposes.

(5) KKR Holdings is the holding vehicle through which our principals indirectly own their interest in the Combined Business. It is treated as a partnership for U.S. federal income tax purposes. KKR Holdings holds KKR Group Partnership Units. KKR Group Partnership Units that are held by KKR Holdings are exchangeable for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance with applicable lock-up, vesting and transfer restrictions. As limited partner interests, these KKR Group Partnership Units are non-voting and do not entitle to KKR Holdings to participate in the management of our business and affairs.

(6) Carry pool allocations represent allocations of a portion of the carried interest earned in relation to our investment funds and carry paying co-investment vehicles to our principals, other professionals and selected other individuals who work in these operations. No carried interest has been allocated with respect to co-investments and privately negotiated investments acquired from KPE in the Combination Transaction.

(7) Our Combined Business includes (i) all of our fee-generating management companies and capital markets companies, (ii) all of the entities that are entitled to receive carried interest from investment funds and co-investment vehicles formed subsequent to the 1996 Fund and (iii) the net assets acquired from KPE in the Combination Transaction. For additional information concerning the interests in KKR that are owned by the KKR Group Partnerships or held by minority investors, see " Components of our Business Owned by the KKR Group Partnerships."

Our Combined Business

On October 1, 2009, we completed the Transactions pursuant to which we reorganized our asset management business into a holding company structure and acquired all of the assets and liabilities of KKR Guernsey. We refer to our business that resulted from the Transactions as our Combined Business.

Reorganization Transactions

The reorganization of our asset management business into a holding company structure involved a contribution of equity interests in our business that were held by our principals to the KKR Group Partnerships in exchange for newly issued KKR Group Partnership Units that are held by KKR Holdings. The KKR Group Partnership Units received by KKR Holdings represent a 70% interest in our Combined Business. Our principals did not receive any cash in connection with their contribution of equity interests to the KKR Group Partnerships.

Prior to the reorganization, our business was conducted through a number of entities that included our management companies and capital markets companies, the general partners of certain of our funds and the consolidated subsidiaries of the foregoing. In order to facilitate the Combination Transaction and the U.S. Listing we reorganized these entities into an integrated structure pursuant to which KKR Guernsey unitholders and our principals hold interests in our business.

Table of Contents

Combination Transaction

Concurrently with the Reorganization Transactions, we completed our acquisition of the assets and liabilities of KKR Guernsey in the Combination Transaction. Pursuant to the Combination Transaction, KKR Guernsey contributed all of its assets and liabilities to the KKR Group Partnerships in exchange for newly issued KKR Group Partnership Units that are held by KKR Guernsey through Group Holdings. These KKR Group Partnership Units represent a 30% interest in our Combined Business. Upon completion of the Combination Transaction, KKR Guernsey changed its name from KKR Private Equity Investors, L.P. to KKR & Co. (Guernsey) L.P. and, effective on October 2, 2009, changed the ticker symbol for its units on Euronext Amsterdam from "KPE" to "KKR."

Prior to the Transactions, KKR Guernsey focused primarily on making private equity investments in our portfolio companies and funds with the flexibility to make other types of investments, including in fixed income and public equity. It made all of its investments through a lower-tier partnership, which we refer to as the KPE Investment Partnership, of which KKR Guernsey was the sole limited partner. Prior to the Transactions, KKR Guernsey's only material assets were its interests in the KPE Investment Partnership, which held partner interests in a number of our private equity funds, co-investments in portfolio companies, negotiated equity investments, cash, cash equivalents and other assets. In connection with the Transactions, KKR Guernsey contributed its limited partnership interests in the KPE Investment Partnership, cash and other net liabilities to the KKR Group Partnerships in exchange for newly issued KKR Group Partnership Units. The assets we acquired from KKR Guernsey provide us with capital to further grow and expand our business, increase our participation in our existing portfolio of businesses and further align our interests with those of our investors and other stakeholders. The Combination Transaction also provides a means to enhance access to capital markets and create a new currency to incentivize our professionals and fund potential acquisitions and growth opportunities.

The Combination Transaction did not involve the payment of any cash consideration or involve an offering of any newly issued securities to the public, and KKR Guernsey unitholders' continued to hold KKR Guernsey units. Until the U.S. Listing and In-Kind Distribution, KKR Guernsey units will remain subject to the same restrictions on ownership and transfers that applied prior to the completion of the Combination Transaction.

U.S. Listing and In-Kind Distribution

On February 24, 2010, we delivered to KKR Guernsey a notice of our intention to exercise a right to seek to have our common units listed and traded on the New York Stock Exchange and to have KKR Guernsey make an In-Kind Distribution of our common units to holders of KKR Guernsey units upon completion of the U.S. Listing. Our election to seek a U.S. Listing was made pursuant to an investment agreement among us and certain of our affiliates, on the one hand, and KKR Guernsey and certain of its affiliates, on the other hand. The investment agreement contemplates, among other things, that KKR Guernsey will contribute its interests in our Combined Business to us in exchange for our common units and distribute those common units to holders of KKR Guernsey units pursuant to the In-Kind Distribution.

Upon the occurrence of the U.S. Listing and In-Kind Distribution, holders of KKR Guernsey units will have received one of our common units for each KKR Guernsey unit. Because the assets of KKR Guernsey consist solely of its interests in our business, the In-Kind Distribution will have resulted in the dissolution of KKR Guernsey and a delisting of its units from Euronext Amsterdam. To preserve a trading market for interests in our business, the In-Kind Distribution will be conditioned upon our common units being approved for listing on the New York Stock Exchange subject to official notice of issuance.

Table of Contents

Our Managing Partner

As is commonly the case with limited partnerships, our limited partnership agreement provides for the management of our business and affairs by a general partner rather than a board of directors. Our Managing Partner serves as the ultimate general partner of us and the KKR Group Partnerships. Our Managing Partner has a board of directors that is co-chaired by our founders Henry Kravis and George Roberts, who also serve as our Co-Chief Executive Officers and, in such positions, are authorized to appoint other officers of our Managing Partner.

You will not hold securities of our Managing Partner and will not be entitled to vote in the election of its directors or other matters affecting its governance. Only those persons holding Class A shares in our Managing Partner will be entitled to vote in the election or removal of its directors, on proposed amendments to its charter documents or on other matters that require approval of its equity holders. Our senior principals hold all such interests. See "Management Our Managing Partner."

Group Holdings

Group Holdings is the entity through which KKR Guernsey owns KKR Group Partnership Units. KKR Guernsey's interest in Group Holdings consists of a limited partner interest that is non-voting. We hold a non-economic general partner interest in Group Holdings and, through such interest, exercise control over the KKR Group Partnerships and the Combined Business. Our Managing Partner controls us and exercises this control. In connection with the U.S. Listing and In-Kind Distribution, we will acquire all of KKR Guernsey's interests in Group Holdings and, as result of such acquisition, both control the KKR Group Partnerships and hold KKR Group Partnership Units.

KKR Group Partnerships

Each KKR Group Partnership has an identical number of partner interests and, when held together, one Class A partner interest in each of the KKR Group Partnerships together represents one KKR Group Partnership Unit. Upon completion of the U.S. Listing and In-Kind Distribution, we will hold KKR Group Partnership Units and our principals will hold KKR Group Partnership Units. KKR Group Partnership Units that are held by KKR Holdings are exchangeable for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance with applicable lock-up, vesting and transfer restrictions.

Components of Our Business Owned by the KKR Group Partnerships

Following the completion of the Transactions, except for interests described below, the KKR Group Partnerships own:

- all of the controlling and economic interests in our fee-generating management companies and capital markets companies, which allows our unitholders to share ratably in the management, monitoring, transaction and other fees earned from all of our funds, managed accounts, portfolio companies, capital markets transactions, specialty finance company, structured finance vehicles and other investment products;

- controlling and economic interests in the general partners of our funds and the entities that are entitled to receive carry from our co-investment vehicles, which allows our unitholders to share in our carried interest, as well as any returns on investments made by or on behalf of the general partners of our funds on or after October 1, 2009, the date of the completion of the Combination Transaction; and

Table of Contents

all of the controlling and economic interests in our principal assets, including the assets formerly owned by KPE, which allows us to share ratably in the returns that our principal assets generate.

With respect to our active and future funds and vehicles that provide for carried interest, we intend to continue to allocate to our principals, other professionals and selected other individuals who work in these operations a portion of the carried interest earned in relation to these funds as part of our carry pool. We expect to allocate approximately 40% of the carry we receive from these funds and vehicles to our carry pool, although this percentage may fluctuate over time. Allocations to the carry pool may not exceed 40% without the approval of a majority of the independent directors of our Managing Partner.

Certain minority investors retain additional interests in our business and such interests were not acquired by the KKR Group Partnerships in the Transactions:

- controlling and economic interests in the general partners of the 1996 Fund, which interests were not contributed to the KKR Group Partnerships due to the fact that the general partners are not expected to receive meaningful carried interest proceeds from further realizations;

- noncontrolling economic interests that allocate to a former principal and such person's designees an aggregate of 1% of the carried interest received by general partners of our funds and 1% of our other profits until a future date;

- noncontrolling economic interests that allocate to certain of our former principals and their designees a portion of the carried interest received by the general partners of our private equity funds that was allocated to them with respect to private equity investments made during such former principals' previous tenure with our firm;

- noncontrolling economic interests that allocate to certain of our current and former principals all of the capital invested by or on behalf of the general partners of our private equity funds before the completion of the Transactions on October 1, 2009 and any returns thereon as well as any realized carried interest distributions that had actually been received but not distributed by the general partners prior to the Transactions; and

- a noncontrolling economic interest that allocates to a third party an aggregate of 2% of the equity in our capital markets business.

The interests described in the immediately preceding bullets (other than interests in the general partners of the 1996 Fund) are referred to as the Retained Interests. The Retained Interests are reflected in our financial statements as noncontrolling interests even though these interests are not part of the Combined Business. Except for the Retained Interest in our capital markets business, these interests generally are expected to run-off over time, thereby increasing the interests of the KKR Group Partnerships in the entities that comprise our business.

KKR Holdings

Our principals hold interests in our business through KKR Holdings, which owns all of the outstanding KKR Group Partnership Units that are not allocable to us. These individuals receive financial benefits from our business in the form of distributions and other amounts funded by KKR Holdings and through their direct and indirect participation in the value of KKR Group Partnership Units held by KKR Holdings.

Amounts funded by KKR Holdings include annual cash bonuses that are paid to certain of our most senior employees as well as equity and equity based grants that were made to our principals and other employees in connection with the Transactions. Because these amounts are funded by KKR Holdings, we do not bear the economic costs associated with them, although we are required to record certain non-cash charges in our financial statements relating to these items.

The interests that these individuals hold in KKR Holdings are subject to transfer restrictions and, except for interests held by our founders and certain interests that were vested when granted, time and/or performance based vesting requirements. The transfer restriction period lasts for a minimum of (i) one year with respect to one-half of the interests vesting on a vesting date and (ii) two years with respect to the other one-half of the interests vesting on such vesting date. While employed by our firm, our personnel are also subject to minimum retained ownership rules that require them to continuously hold at least 25% of their cumulatively vested interests.

Interests that time vest will vest in installments over a 5 year period from the grant date. Interests that are subject to performance based criteria may be subject to additional time based vesting requirements that begin when performance criteria have been met. Vesting of certain transfer restricted interests will be subject to the holder not being terminated for cause and complying with the terms of his or her confidentiality and restrictive covenant agreement during the transfer restrictions period. See "Certain Related Party Transactions Confidentiality and Restrictive Covenant Agreements." The transfer and vesting restrictions applicable to these interests may not be enforceable in all cases and can be waived, modified or amended by KKR Holdings at any time without the consent of KKR.

Equity Incentive Plan

In connection with the U.S. Listing, we intend to adopt our Equity Incentive Plan for our employees, directors, officers, consultants and senior advisors. The plan will contain customary terms for equity incentive plans for U.S. publicly traded asset managers and will allow for the issuance of various forms of awards, including restricted equity awards, unit appreciation rights, options and other equity based awards. The plan will be administered by the board of directors of our Managing Partner. See "Management KKR & Co. L.P. Equity Incentive Plan."

Exchange Agreement

We are a party to an exchange agreement with KKR Holdings pursuant to which KKR Holdings and certain of the transferees of its KKR Group Partnership Units may, up to four times each year, exchange KKR Group Partnership Units held by them (together with corresponding special voting units in our partnership) for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. At the election of our partnership and KKR Management Holdings Corp., as the general partners of the KKR Group Partnerships, the KKR Group Partnerships may settle exchanges of KKR Group Partnership Units with cash in an amount equal to the fair market value of the common units that would otherwise be deliverable in such exchanges. If an election is made to settle an exchange of KKR Group Partnership Units with cash, the net assets of the KKR Group Partnerships will decrease and the KKR Group Partnerships will cancel the KKR Group Partnership Units that are acquired in the exchange, which will result in a corresponding reduction in the number of fully diluted common units and special voting units that we have outstanding following the exchange. As a result of the cancellation of the KKR Group Partnership Units that are acquired in the exchange, our percentage ownership of the KKR Group Partnerships will increase and KKR Holdings' percentage ownership will decrease.

Tax Receivable Agreement

The acquisition by our intermediate holding company, KKR Management Holdings Corp., of KKR Group Partnership Units from KKR Holdings or transferees pursuant to the exchange agreement is expected to result in an increase in our intermediate holding company's share of the tax basis of the tangible and intangible assets of KKR Management Holdings L.P., primarily attributable to a portion of the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization deductions for U.S. federal tax purposes and therefore reduce the amount of tax that we would otherwise be required to pay in the future. This

Table of Contents

increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

We are a party to a tax receivable agreement with KKR Holdings requiring our intermediate holding company to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding company actually realizes as a result of this increase in tax basis as well as 85% of the amount of any such savings the intermediate holding company actually realizes as a result of increases in tax basis that arise due to future payments under the agreement. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, neither KKR Holdings nor its transferees will reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase, or the benefits of such increases, were successfully challenged by the IRS. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement." In the event that other of our current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, each will become subject to a tax receivable agreement with substantially similar terms.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma statement of operations for the year ended December 31, 2009 gives effect to the Transactions and certain other arrangements entered into in connection with the Transactions as if the Transactions and such arrangements had been completed as of January 1, 2009. Because the Transactions and related arrangements were completed on October 1, 2009, their impact is fully reflected in our statement of financial condition as of December 31, 2009. Accordingly, we have not included a pro forma statement of financial condition.

The unaudited pro forma statement of operations is based on the historical consolidated and combined financial statements included elsewhere in this prospectus. The pro forma adjustments are described in the accompanying notes and are based on available information and assumptions that management believes are reasonable in order to reflect, on a pro forma basis, the impact of the Transactions and related arrangements described above on our historical financial information.

You should read this information in conjunction with "Organizational Structure," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this prospectus.

Consolidation

Our consolidated and combined financial statements include the accounts of our management and capital markets companies, the general partners of our investment funds and carry-yielding co-investment vehicles and a number of investment funds that we are required to consolidate in our financial statements in accordance with GAAP. We refer to these consolidated funds as "the KKR Funds." Prior to the Transactions, the KKR Funds include the 1996 Fund, the European Fund, the Millennium Fund, the European Fund II, the 2006 Fund, the Asian Fund, the European Fund III, E2 Investors and the KPE Investment Partnership. Following the completion of the Transactions, we continue to consolidate most of the KKR Funds and reflect interests in those entities that are held by third party investors as noncontrolling interests in consolidated entities. Interests in the KPE Investment Partnership that were previously owned by KKR Guernsey and reflected as noncontrolling interests in consolidated entities are now included in partners' capital as a result of our acquisition of those assets.

Reorganization Transactions

On October 1, 2009, we completed the Reorganization Transactions pursuant to which we reorganized our asset management business into a holding company structure as part of our acquisition of all of the assets and liabilities of KKR Guernsey. The reorganization of our asset management business into a holding company structure involved a contribution to the KKR Group Partnerships of equity interests in our business that were held by our principals in exchange for newly issued KKR Group Partnership Units that are held by KKR Holdings. The KKR Group Partnership Units received by KKR Holdings represent a 70% interest in our Combined Business. Our principals did not receive any cash in connection with their contribution of equity interests to the KKR Group Partnerships.

Other Adjustments

In connection with the Reorganization Transactions, we also recorded certain other adjustments relating to:

- the compensation and equity ownership of our principals, and certain operating consultants and other personnel, who hold interests in KKR Holdings that are subject to vesting and may receive distributions or payments that are borne by KKR Holdings;

Table of Contents

- the allocation of carried interest to our principals, other professionals and selected other individuals as part of our carry pool; and

- the retention by our principals of responsibility for clawback obligations relating to carry distributions received prior to the Transactions up to a maximum of $223.6 million.

We have made adjustments relating to these arrangements in the following unaudited pro forma financial information to the extent that information relating to such matters is currently available and objectively determinable as if such arrangements had been completed as of January 1, 2009.

Combination Transaction

Concurrently with the Reorganization Transactions, we completed our acquisition of the assets and liabilities of KKR Guernsey in the Combination Transaction. Pursuant to the Combination Transaction, KKR Guernsey contributed all of its assets and liabilities to the KKR Group Partnerships in exchange for newly issued KKR Group Partnership Units that are held by KKR Guernsey through KKR Group Holdings. These KKR Group Partnership Units represent a 30% interest in our Combined Business.

In-Kind Distribution

Upon listing our units on the New York Stock Exchange and pursuant to the In-Kind Distribution, each KKR Guernsey unitholder will receive one of our common units for each KKR Guernsey unit when the U.S. Listing becomes effective. Because the assets of KKR Guernsey consist solely of its interests in our business, the In-Kind Distribution will result in the dissolution of KKR Guernsey and a delisting of its units from Euronext Amsterdam. There will be no accounting consequences for this In-Kind Distribution and therefore no pro forma adjustment has been made.

Public Company Expenses

Following the U.S. Listing, we will incur costs associated with being a U.S. publicly traded company. Such costs will include new or increased expenses for such items as insurance, directors' fees, accounting work, legal advice and compliance with applicable U.S. regulatory and stock exchange requirements, including costs associated with compliance with the Sarbanes-Oxley Act and periodic or current reporting obligations under the Exchange Act. No pro forma adjustments have been made to reflect such costs due to the fact that they currently are not objectively determinable.

Table of Contents

KKR Group Holdings L.P.

Unaudited Pro Forma Consolidated and Combined Statement of Operations

For the Year Ended December 31, 2009

(Amounts in thousands, except per unit data)

	Historical	Reorganization Adjustments	Other Adjustments	Adjustments for Combination Transaction	Allocation to KKR Holdings	Pro Forma
Revenues						
Fees	$ 331,271	$ 3,106(b)	$	$	$	$ 334,377
Expenses						
Employee Compensation and Benefits	838,072		251,275(c)(e)(f)(g)(h)			1,089,347
Occupancy and Related Charges	38,013					38,013
General, Administrative and Other	264,396	(222)(b)	(33,971)(d)(e)(i)			230,203
Fund Expenses	55,229		1,154(e)			56,383
Total Expenses	**1,195,710**	**(222)**	**218,458**			**1,413,946**
Investment Income (Loss)						
Net Gains (Losses) from Investment Activities	7,505,005	(251,701)(b)	(100,260)(j)			7,153,044
Dividend Income	186,324	(17,851)(b)				168,473
Interest Income	142,117	(3,043)(b)				139,074
Interest Expense	(79,638)					(79,638)
Total Investment Income (Loss)	**7,753,808**	**(272,595)**	**(100,260)**			**7,380,953**
Income (Loss) Before Taxes	**6,889,369**	**(269,267)**	**(318,718)**			**6,301,384**
Income Taxes	36,998		46,466(k)			83,464
Net Income (Loss)	**6,852,371**	**(269,267)**	**(365,184)**			**6,217,920**
Less: Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities	6,119,382	(42,158)(a)(b)		(882,138)(l)		5,195,086
Less: Net Income (Loss) Attributable to Noncontrolling Interests held by KKR Holdings L.P.	(116,696)				886,900(m)	770,204
Net Income (Loss) Attributable to KKR Group Holdings L.P.	**$ 849,685**	**$ (227,109)**	**$ (365,184)**	**$ 882,138**	**$ (886,900)**	**$ 252,630**
Net Income Per Common Unit						
Basic						$ 1.23(n)
Diluted						$ 1.23(n)
Weighted Average Common Units						
Basic						204,902,226(n)
Diluted						204,902,226(n)

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

(All Dollars in Thousands)

Reorganization Adjustments

The Reorganization Adjustments give effect to the elimination of the controlling and economic interests in the general partners of the 1996 Fund and the elimination of the financial results of the following "Retained Interests:"

(i) economic interests that allocate to a former principal and such person's designees an aggregate of 1% of the carried interest received by the general partners of our private equity funds and 1% of our other profits (losses);

(ii) economic interests that allocate to certain of our former principals and their designees a portion of the carried interest received by the general partners of our private equity funds that was allocated to them with respect to private equity investments made during such former principals' previous tenure with us; and

(iii) economic interests that allocate to certain of our current and former principals all of the capital invested by or on behalf of the general partners of our private equity funds before the completion of the Transactions and any returns thereon.

(a) The elimination of the financial results of these Retained Interests increased net income (loss) attributable to noncontrolling interests in consolidated entities by $8,012, $65,484, and $86,451, respectively. Because capital investments made by or on behalf of the general partners of our private equity funds following the completion of the Reorganization Transactions are held by the KKR Group Partnerships, no pro forma adjustments have been made to the pro forma statement of operations to exclude the financial results of any capital investments made on or after January 1, 2009.

(b) Reflects the elimination of the financial results of the general partners of the 1996 Fund, because the KKR Group Partnerships did not acquire an interest in those general partners in connection with the Reorganization Transactions. Those general partners are entitled to carried interests that allocate to them a percentage of the net profits generated on the fund's investments, subject to certain requirements. The funds also pay management fees to us in exchange for management and other services.

The elimination of the financial results of the general partners of the 1996 Fund resulted in (i) the recognition of $3,106 of fees from management fees paid by the 1996 Fund that had been eliminated in consolidation as an inter-company transaction, (ii) elimination of $222 of expenses, (iii) elimination of $251,701 of net gains (losses) from investment activities (iv) elimination of $17,851 of dividend income, (v) elimination of $3,043 of interest income and (vi) elimination of $202,105 of net income attributable to noncontrolling interests in consolidated entities, because those items are no longer reflected in our consolidated financial statements.

Table of Contents

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Reorganization Adjustments (Continued)

The following table illustrates the line items in the statement of operations affected by the exclusion of the 1996 Fund:

	For the Year ended December 31, 2009
Fees	$ 3,106
General, Administrative and Other	(222)
Net Gains (Losses) from Investment Activities	(251,701)
Dividend Income	(17,851)
Interest Income	(3,043)
Net Income (Loss) Attributable to noncontrolling interests in consolidated entities	(202,105)
Net Income (Loss) Attributable to Group Holdings	$ (67,162)

Other Adjustments

Equity-based Payments

In connection with the Transactions, our principals and certain operating consultants received interests in KKR Holdings, which owns KKR Group Partnership Units representing a 70% interest in our Combined Business. These interests are subject to minimum retained ownership requirements and transfer restrictions, and allow for the ability to exchange into units of KKR & Co. L.P. on a one-for-one basis.

Except for any interests in KKR Holdings that vested on the date of grant, units are subject to service based vesting over a five year period. Compensation expense on these units is recorded over the requisite service period.

The transfer restriction period will last for a minimum of (i) one year with respect to one-half of the interests vesting on any vesting date and (ii) two years with respect to the other one-half of the interests vesting on such vesting date.

The fair value of KKR Holdings units granted is based on the closing price of KKR Guernsey's common units on the date of grant for principal awards and on the reporting date for operating consultant awards. This was determined to be the best evidence of fair value as a KKR Guernsey unit is traded on an active market and has an observable market price. Additionally, a KKR Holdings unit is an instrument with terms and conditions similar to those of a KKR Guernsey unit. Specifically, units in both KKR Holdings and KKR Guernsey represent ownership interests in KKR Group Partnership Units and, subject to the vesting and transfer restrictions referenced above, each KKR Holdings unit is exchangeable into a KKR Group Partnership Unit on a one-for-one basis.

(c)

KKR Holdings Principal Units 406,489,829 units were granted to KKR Holdings principals. Of these, 256,915,430 units vested immediately upon grant. All of the units granted to Henry Kravis and George Roberts were vested immediately upon grant and are included in this vested number. The remaining unvested units cliff vest beginning in 2010 in installments over five years from the grant date. Interests in KKR Holdings received by principals give rise to periodic employee compensation charges in our statement of operations based on the grant-date fair value of $9.35

Table of Contents

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Other Adjustments (Continued)

per unit. For interests that vested on the grant date, compensation expense is recognized on the date of grant based on the fair value of a unit (determined using the closing price of KKR Guernsey units) on the grant date multiplied by the number of vested interests.

Compensation expense recognized on unvested interests in KKR Holdings is calculated based on the fair value of a unit (determined using the closing price of KKR Guernsey units) on the grant date, discounted for the lack of participation rights in the expected distributions on unvested interests, which ranges from 1% to 32%, multiplied by the number of unvested interests on the grant date. The weighted average grant date fair value of unvested units on date of grant was $7.87. Additionally, the calculation of compensation expense on unvested interests assumes a forfeiture rate of up to 3% annually based upon expected turnover by employee class.

In conjunction with the Transactions, certain principals received vested units in excess of the fair value of their contributed ownership interests in our historical business. To the extent the fair value of vested units received in the Transactions exceeded the fair value of such principals' contributed interests, a non-recurring grant date compensation charge was recorded in our historical statements of operations.

In our historical financial statements, employee compensation and benefits expense related to the vesting of units issued to KKR Holdings principals totaled $451,740. Of this amount, $274,795 of compensation expense related to 256,915,430 units that vested immediately upon grant. In addition, $176,945 of compensation expense was recorded in the fourth quarter related to the vesting of units on a graded basis over the requisite service period. The first tranche of units subject to a service condition for which expense has been recognized will cliff vest during 2010 and therefore no additional units were considered vested as of December 31, 2009.

Total pro forma employee compensation and benefits expense for units issued to KKR Holdings principals was calculated based on the number of units that would have vested on a graded basis during the year ended December 31, 2009, excluding non-recurring grant date compensation charges. Total pro forma employee compensation and benefits expense recorded in the pro forma statement of operations was $642,151 and on a pro forma basis, 39,332,895 units would have cliff vested during the year ended December 31, 2009.

The net pro forma adjustment to employee compensation and benefits relating to KKR Holdings principal units was $190,411, comprised of the inclusion of $465,206 of service period vesting charges and the exclusion of $274,795 of non-recurring grant date vesting charges.

(d)

KKR Holdings Operating Consultant Units 27,234,069 units were granted to KKR Holdings operating consultants. Of these, 8,935,867 vested immediately upon grant. The remaining units cliff vest beginning in 2010 in installments over five years from the grant date. Interests in KKR Holdings granted to operating consultants give rise to periodic general, administrative and other charges in our statement of operations. For interests that vested on the grant date, expense is recognized on the date of grant based on the fair value of a unit (determined using the closing price of KKR Guernsey units) on the grant date multiplied by the number of vested interests.

General, administrative and other expense recognized on unvested units is calculated based on the fair value of an interest in KKR Holdings (determined using the closing price of KKR Guernsey's units) on each reporting date and subsequently adjusted for the actual fair value of the award at each vesting date. Accordingly, the measured value of these interests will not be finalized until

Table of Contents

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Other Adjustments (Continued)

each vesting date. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 3% annually based upon expected turnover by class of operating consultant.

In conjunction with the Transactions, certain operating consultants received vested units in excess of the fair value of their contributed ownership interests in our historical business. To the extent the fair value of vested units received in the Transactions exceeded the fair value of such consultants contributed interests, a non-recurring grant date vesting charge was recorded in our historical statements of operations.

In our historical financial statements, general, administrative and other expense related to the vesting of units issued to KKR Holdings operating consultants totaled $80,975. Of this amount, $59,471 related to 8,935,867 units that vested immediately upon grant. In addition, $21,504 of general administrative and other was recorded in the fourth quarter ended December 31, 2009 related to the vesting of units on a graded basis over the requisite service period. The first tranche of units subject to a service condition for which expense has been recognized will cliff vest during 2010 and therefore no additional units were considered vested as of December 31, 2009.

Total pro forma general, administrative and other expense for units issued to KKR Holdings operating consultants was calculated based on the number of units that would have vested on a graded basis during the year ended December 31, 2009, excluding non-recurring grant date charges. Total pro forma general, administrative and other expense for units issued to KKR Holdings operating consultants recorded in the pro forma statement of operations was $77,981 based on a unit price of $8.50. On a pro forma basis, 5,060,826 units would have cliff vested during the year ended December 31, 2009. On a pro forma basis, had the unit price at the reporting date been higher or lower by 10%, the total expense for the year would have been $85,779 or $70,182, respectively.

The net pro forma adjustment to general, administrative and other expense relating to KKR Holdings Operating Consultant Units was $(2,994) comprised of the inclusion of $56,477 of service period vesting charges and the exclusion of $59,471 of non-recurring grant date vesting charges.

(e)

Profit Sharing Charges We have implemented profit sharing arrangements for our principals and certain operating consultants working in our businesses and across our different operations that are designed to appropriately align performance and compensation. Subsequent to the Transactions, with respect to our active and future funds and vehicles that provide for carried interest, we will allocate to our principals, and certain operating consultants a portion of the carried interest earned in relation to these funds as part of our carry pool. As it relates to the profit sharing arrangement with our employees, these amounts are accounted for as compensatory in conjunction with the related carried interest income and recorded as compensation expense. As it relates to the profit sharing arrangement with certain operating consultants, these amounts are accounted for in the same manner, but classified as general administrative and other expense.

Allocations to our carry pool represent 40% of carried interest earned in funds eligible to receive carry distributions. No accrued liabilities for carry pool allocations are made in funds that are in either a clawback position or a net loss sharing position. As our funds become eligible to receive carry distributions, amounts allocable to our carry pool are recorded in our statement of operations as employee compensation and benefits expense for amounts allocable to our principals and as general, administrative and other expense for amounts allocable to our operating

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Other Adjustments (Continued)

consultants. All amounts allocable to our carry pool are recorded as accrued liabilities on our statement of financial condition. As allocations to our carry pool are distributed, accrued liabilities are reduced for the amount distributed. If this profit sharing arrangement had been implemented on January 1, 2009, total amounts allocable to our carry pool would have been $25,715 on January 1, 2009. In addition, total amounts allocable to our carry pool were $130,247 and $166,370 as of September 30, 2009 and December 31, 2009, respectively. Allocations to our carry pool totaling $777 were distributed during the year ended December 31, 2009 and are included in the total expense associated with this arrangement.

In our historical financial statements, we recorded charges associated with allocations to our carry pool totaling $163,097 and $4,050 for our principals and operating consultants, respectively, which consists of the following; (i) one-time charges totaling $127,071 and $3,176 to establish the opening liability associated with the implementation of this profit sharing arrangement for our principals and operating consultants, respectively; and (ii) periodic charges for the period from October 1, 2009 to December 31, 2009 totaling $36,026 and $874 for our principals and operating consultants, respectively.

On a pro forma basis, the total expense associated with this profit sharing arrangement totaled $141,432, of which $138,009 and $3,423 were recorded to employee compensation and benefits and general administrative and other, respectively. The total pro forma expense was estimated by calculating the difference between amounts that would have been allocable to our carry pool on January 1, 2009 and the amounts allocable to our carry pool on December 31, 2009 plus any distributions made from our carry pool during the year ended December 31, 2009.

Accordingly, in order to reflect expense on a pro forma basis, adjustments of $(25,088) and $(627) have been recorded to employee compensation and benefits and general administrative and other. This adjustment represents the amounts that would have been allocable to our carry pool on January 1, 2009.

In addition, we have historically allocated a percentage of carry to a profit sharing plan for our other employees and advisors. These charges have historically been borne by us and have been recorded in employee compensation and benefits for amounts due to employees and general administrative and other expense or fund expenses for amounts due to advisors. Subsequent to the Transactions, the costs associated with this plan will be borne pro-rata by the respective parties receiving the carried interest. As such, a non-recurring benefit related to the pro rata share of the liability not borne by us was recorded in the corresponding line items in the statement of financial condition and statement of operations.

The net pro forma adjustment related to this profit sharing plan was (i) a charge of $4,269 to employee compensation and benefits expense; (ii) a charge of $608 to general, administrative and other expense; and (iii) a charge of $1,154 to fund expense.

(f)

Discretionary compensation and discretionary allocations Prior to the Transactions, payments made to our senior principals included distributions which were accounted for as capital distributions. In addition, certain other principals received bonuses which were paid by us and accounted for as employee compensation and benefits expense totaling $20,016 in our historical financial statements.

Table of Contents

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Other Adjustments (Continued)

Subsequent to the completion of the Transactions, our senior principals and certain other principals who hold interests in KKR Holdings are expected to be allocated, on a discretionary basis, distributions received on unvested KKR Holdings units. These discretionary amounts are expected to be made annually and result in principals receiving amounts in excess of their vested equity interests.

Even though these amounts are borne only by KKR Holdings, any amounts in excess of a principal's vested equity interests are reflected as employee compensation and benefits expense due to the fact that unvested interests do not carry distribution participation rights.

Total pro forma employee compensation and benefits expense related to the discretionary allocation to KKR Holdings principals recorded in the pro forma statement of operations was $85,010. This pro forma distribution amount was determined utilizing a distribution calculation for the year ended December 31, 2009, consistent with the distribution calculation for the three months ended December 31, 2009; however, the calculation used for pro forma purposes may not be indicative of how distributions will actually be calculated in the future. See "Distribution Policy." The amounts recognized in expense for the discretionary allocation are equal to the amount of the distribution that would have been allocable to KKR Holdings, less any distributions that would have been paid on vested KKR Holdings units as of the date of the distribution. See "Distribution Policy."

The following table illustrates our distribution calculation for the year ended December 31, 2009 on a pro forma basis:

Pro Forma Fee Related Earnings	$ 247,417
Less: Pro Forma Noncontrolling Interests	(2,691)
Pro Forma Realized Cash Carry	1,166
Less: Pro Forma local and Foreign Taxes	(6,006)
Pro Forma Gross Distributable Earnings	239,886
KKR Holdings Allocation (70%)	70%
Pro Forma Net Cash Available for Distributions to KKR Holdings	167,920
Less: Pro Forma Vested Distributions	82,910
Pro Forma Discretionary Allocations	$ 85,010

Amounts for the three months ended December 31, 2009 are included in the historical financial statements for the year ended December 31, 2009 and totaled $28,530.

A net pro forma adjustment of $36,464 was made to reflect charges associated with discretionary compensation and allocations which would previously have been accounted for as capital distributions for the year ended December 31, 2009.

(g) **Other compensation adjustments** Historically, our employee compensation and benefits expense consisted of base salaries and bonuses paid to employees who were not our senior principals. Following the completion of the Transactions, all of our senior principals and other employees receive a base salary that is paid by us and accounted for as employee compensation and benefits expense. An adjustment to include base salaries that would have been paid by us to our senior principals in the amount of $7,266 was recorded in the pro forma financial information for the

Table of Contents

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Other Adjustments (Continued)

year ended December 31, 2009. Our employees are also eligible to receive discretionary cash bonuses based on performance criteria, our overall profitability and other matters.

(h) **KKR Holdings Restricted Equity Units** In connection with the Transactions, 8,559,679 restricted equity units were granted by KKR Holdings to our employees and advisors. The vesting of these equity units occurs in installments over three to five years from the date of grant and is contingent on our common units becoming listed and traded on the New York Stock Exchange or another U.S. exchange. As of December 31, 2009, this contingency had not occurred and accordingly, no compensation expense was recorded in our historical financial statements.

Had the contingency been satisfied as of January 1, 2009, the vesting of restricted equity units would have given rise to periodic employee compensation charges in the statement of operations. The pro forma adjustment related to the vesting of restricted equity units allocated to employees was accounted for as an equity award, assumes a year of vesting on a graded basis and assumes a 3% annual forfeiture rate. Further, the fair value of a restricted equity unit was determined to be $9.35, based on the value of a KKR Guernsey common unit on the grant date. No other discounts have been utilized in determining the fair value of a restricted unit as all vested and unvested units are distribution participating. This adjustment amounted to $37,953.

(i) During the year ended December 31, 2009 we incurred $34,846 in expenses in connection with the Transactions, which are included in our historical financial statements. We have excluded this charge from our pro forma financial statements as it is not recurring in nature. In addition, we included general, administrative and other expenses incurred by KKR Guernsey in the amount of $3,888.

Table of Contents

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Other Adjustments (Continued)

The following table summarizes the effects of the other pro forma adjustments described in notes (c) (i) above on employee compensation and benefits expense, general, administrative and other expense, and fund expense in the statement of operations:

Employee Compensation and Benefits Adjustments	
(c) Net impact of vesting of employee units in KKR Holdings	$ 190,411
(e) Net impact of allocation to carry pool	(25,088)
(e) Net impact of profit sharing adjustments	4,269
(f) Discretionary compensation and discretionary allocation of distributions on Group Partnership Units received by KKR Holdings	36,464
(g) Inclusion of senior principals' salaries	7,266
(h) Non-cash charges related to vesting of restricted equity units	37,953
Total pro forma adjustment to employee compensation and benefits expense	$ 251,275
General Administrative and Other Adjustments	
(d) Net impact of vesting of operating consultant units in KKR Holdings	$ (2,994)
(e) Net impact of allocation to carry pool	(627)
(e) Net impact of profit sharing adjustments	608
(i) Addition of KKR Guernsey expenses	3,888
(i) Exclusion of non-recurring costs relating to the Transactions	(34,846)
Total pro forma adjustment to general administrative and other expense	$ (33,971)
Fund Expenses Adjustments	
(e) Net impact of profit sharing adjustments	$ 1,154

(j)

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

Prior to the Transactions, certain of our principals who received carried interest distributions with respect to our private equity funds had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of certain private equity funds to repay amounts to fund limited partners pursuant to the general partners' clawback obligations. The terms of the Transactions require that KKR principals remain individually responsible for any clawback obligations relating to carry distributions received by them prior to the Transactions up to a maximum for all such principals of $223.6 million in the aggregate. This obligation of our principals is independent of any interest in KKR Holdings and is independent of any carry pool allocations to which our principals may be entitled.

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Other Adjustments (Continued)

Further, this arrangement ensures that equity holders of the KKR Group Partnerships will not be responsible for carried interest paid out to the general partners of certain private equity funds prior to the Transactions up to the maximum of $223.6 million. Any amounts above the maximum would be the responsibility of the equity holders of the KKR Group Partnerships on a pro rata basis.

To the extent a fund is in a clawback position, the KKR Group Partnerships will record a benefit to reflect the amounts due from our principals related to the clawback up to the maximum. By recording this benefit, the clawback obligation has been reduced to an amount that represents the obligation of the KKR Group Partnerships.

Generally, amounts owed under this arrangement will fluctuate with changes in the underlying value of our funds and accordingly, fluctuations to amounts owed under this arrangement are recorded through net gains (losses) from investment activities as an offset to movements in the underlying value of our funds. As a result of this arrangement, we have recorded an adjustment of $(100,260) to record these fluctuations in the amounts owed by our principals to the KKR Group Partnerships. This amount represents the change in the contingent repayment guarantee from what would have been recorded on January 1, 2009 on a pro-forma basis compared to what was recorded on September 30, 2009 on a historical basis.

The following table presents the calculation of the pro forma adjustment for the contingent repayment guarantee:

Contingent Repayment Guarantee January 1, 2009	$	(195,540)
Contingent Repayment Guarantee September 30, 2009		(95,280)
Pro-Forma adjustment to net gains (losses) from investment activities	$	(100,260)

Amounts for the three months ended December 31, 2009 are included in the historical financial statements for the year ended December 31, 2009 and therefore no adjustment was necessary for this period.

The following table presents a rollforward of the contingent repayment guarantee included in our historical financial statements:

Contingent Repayment Guarantee September 30, 2009	$	(95,280)
Adjustment recorded to net gains (losses) from investment activities in our historical financial statements		18,159
Contingent Repayment Guarantee December 31, 2009	$	(77,121)

(k)

We have historically operated as a group of partnerships for U.S. federal income tax purposes and, in the case of certain entities located outside the United States, corporate entities for foreign income tax purposes. Because most of the entities in our consolidated group are taxed as partnerships, our income is generally allocated to, and the resulting tax liability is generally borne by, our partners and we generally are not taxed at the entity level.

Following the Transactions, the KKR Group Partnerships and their subsidiaries continue to operate as partnerships for U.S. federal income tax purposes and, in the case of certain entities located

Table of Contents

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Other Adjustments (Continued)

outside the United States, corporate entities for foreign income tax purposes. Accordingly, those entities will continue to be subject to New York City unincorporated business taxes ("UBT") or foreign income taxes. Certain of the KKR Group Partnership Units owned by us, however, are held through an intermediate holding company that is taxable as a corporation for U.S. federal income tax purposes and subject to additional entity level taxes. As a result of this holding structure, we will record an additional provision for corporate income taxes that will reflect our current and deferred tax liability relating to the taxable earnings allocated to such entity.

The table below reflects our calculation of the pro forma income tax provision for the periods presented and the corresponding assumptions:

Income (Loss) before Taxes Group Holdings Pro Forma	$	6,301,384
Less: Income (Loss) before Taxes Attributable to KKR Fund Holdings L.P.		6,593,144
Income (Loss) before Taxes Attributable to KKR Management Holdings L.P.		(291,760)
Permanent Items Excluded from Taxable Income		995,513
Income (Loss) Before Taxes after Permanent Items		703,753
Adjusted Percentage Allocable to KKR Management Holdings Corp.		30%
Income (Loss) Before Taxes after Permanent Items Allocated to Management Holdings Corp.		211,126
Federal Tax Expense at Statutory Rate (35%)		73,894
State and Local Expense(a)		9,570
Income Tax Expense	$	83,464

(a) State and Local Tax Expense was calculated at a blended rate of 4.53%

The amount of the adjustment reflects the difference between the actual tax provision for the historical organizational structure and the estimated tax provision that would have resulted had the Transactions been effected on January 1, 2009. This amounted to $(2,783) of foreign and unincorporated business taxes and $49,249 of state and federal taxes.

For a discussion of pending legislation that may preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes, see "Risk Factors Risks Related to Our Business Legislation has been introduced in the U.S. Congress in various forms that, if enacted, (i) could preclude us from qualifying as a partnership and/or (ii) could tax carried interest as ordinary income for U.S. federal income tax purposes and require us to hold carried interest through taxable subsidiary corporations. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the market price of our common units."

The acquisition by our intermediate holding company of Group Partnership units from KKR Holdings or transferees of its Group Partnership units is expected to result in an increase in our intermediate holding company's share of the tax basis of the tangible and intangible assets of KKR Management Holdings L.P., primarily attributable to a portion of the goodwill inherent in our

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Other Adjustments (Continued)

business, that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization for U.S. federal income tax purposes and therefore reduce the amount of income tax that our intermediate holding company would otherwise be required to pay in the future.

In connection with the Transactions, we have entered into a tax receivable agreement with KKR Holdings pursuant to which our intermediate holding company will be required to pay to KKR Holdings or transferees of its Group Partnership units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding company actually realizes as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding company actually realizes as a result of increases in tax basis that arise due to payments under the tax receivable agreement. Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, neither KKR Holdings nor its transferees will reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase, or the benefits of such increases, were successfully challenged.

Interests in KKR Holdings are subject to vesting and transfer restrictions and, therefore, exchanges for our common units generally cannot be effected for a stated period of time. Furthermore, certain information necessary to calculate the financial statement impact of the tax receivable agreement once these restrictions have expired is currently not determinable.

Adjustments for the Combination Transaction

(l)

Reflects the exclusion of noncontrolling interests in consolidated entities representing interests in the KPE Investment Partnership, which became wholly owned by the KKR Group Partnerships beginning on October 1, 2009. For the year ended December 31, 2009, on a pro forma basis, the exclusion of these non-controlling interests resulted in net benefits accounted for as noncontrolling interests in income (loss) of consolidated entities of $882,138.

Allocation to KKR Holdings

(m)

In order to reflect the Transactions as if they occurred on January 1, 2009, an adjustment has been made to reflect the inclusion of noncontrolling interests in consolidated entities representing KKR Group Partnership Units that are held by KKR Holdings. The following table reflects the calculation of Net Income (Loss) Attributable to Noncontrolling Interests held by KKR Holdings L.P. on a pro forma basis for the year ended December 31, 2009:

Income before Taxes	$	6,301,384
Less: Net Income Attributable to Noncontrolling Interests in Consolidated Entities		5,195,086
Less: Local and Foreign Taxes		6,006
Net Income Attributable to KKR Group Partnerships		1,100,292
Amount Allocable to KKR Holdings L.P. (70%)		70.00%
Net Income Attributable to Noncontrolling Interests held by KKR Holdings L.P.	$	770,204

Table of Contents

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Determination of Earnings Per Common Unit

(n)

Pro forma basic and diluted net income per common unit were computed in the following manner.

	Year Ended December 31, 2009
	Basic and Diluted
Net income available to holders of common units	$ 252,630
Total common units outstanding	204,902,226
Net income per common unit	$ 1.23

We are party to an exchange agreement with KKR Holdings in connection with the Reorganization Transactions pursuant to which KKR Holdings or certain transferees of its KKR Group Partnership Units may, up to four times each year, exchange KKR Group Partnership Units held by them (together with corresponding special voting units) for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance with applicable lock-up, vesting and transfer restrictions. If the Group Partnership Units held by KKR Holdings were to be exchanged for common units, fully diluted common units outstanding would be . In computing the dilutive effect, if any, that the exchange of KKR Group Partnership Units would have on earnings per unit, we consider that net income available to holders of common units would increase due to the elimination of the noncontrolling interests in consolidated entities associated with the KKR Group Partnership Units (including any tax impact).

For the year ended December 31, 2009, we have presented identical basic and fully diluted earnings per unit as the assumed exchange was anti-dilutive.

Pro Forma Segment Results

We operate through three reportable business segments. These segments are differentiated primarily by their investment focuses and strategies and consist of Private Markets, Public Markets, and

Table of Contents

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Pro Forma Segment Results (Continued)

Capital Markets and Principal Activities. The following table presents the financial data for our reportable segments on a pro forma basis for the year ended December 31, 2009:

	Private Markets Segment	Public Markets Segment	Capital Markets and Principal Activities Segment	Total Reportable Segments
Fees				
Management and incentive fees:				
Management fees	$ 387,112	$ 50,604	$	$ 437,716
Incentive fees		4,472		4,472
Management and incentive fees	387,112	55,076		442,188
Monitoring and transaction fees:				
Monitoring fees	158,243			158,243
Transaction fees	57,699		34,129	91,828
Fee credits(1)	(73,901)			(73,901)
Net monitoring and transaction fees	142,041		34,129	176,170
Total fees	529,153	55,076	34,129	618,358
Expenses				
Employee compensation and benefits	136,465	22,677	9,455	168,597
Other operating expenses	175,736	20,587	6,021	202,344
Total expenses	312,201	43,264	15,476	370,941
Fee Related Earnings	**216,952**	**11,812**	**18,653**	**247,417**
Investment income (loss)				
Gross carried interest	602,427			602,427
Less: allocation to our carry pool(2)	(153,827)			(153,827)
Less: management fee refunds(3)	(22,720)			(22,720)
Net carried interest	425,880			425,880
Other investment income (loss)	20,621	(5,259)	1,267,976	1,283,338
Total investment income	446,501	(5,259)	1,267,976	1,709,218
Income (Loss) before noncontrolling interests in Income of consolidated entities	663,453	6,553	1,286,629	1,956,635
Income (Loss) attributable to noncontrolling interests(4)	1,973	109	609	2,691

Economic Net Income (Loss)	**$ 661,480**	**$ 6,444**	**$ 1,286,020**	**$ 1,953,944**

(1) Our agreements with the limited partners of certain investment funds require us to share with such limited partners a portion of any monitoring and transaction fees received from portfolio companies and allocable to their funds ("Fee Credits"). Fee Credits exclude fees that are not attributable to a fund's interest in a portfolio company and generally amount to 80% of monitoring and transaction fees allocable to the fund after related expenses are recovered.

(2) With respect to our active and future investment funds and vehicles that provide for carried interest, we will allocate to our principals, other professionals and selected other individuals who

Table of Contents

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

(All Dollars in Thousands)

Pro Forma Segment Results (Continued)

work in these operations a portion of the carried interest earned in relation to these funds as part of our carry pool.

(3) Certain of our investment funds require that we refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of management fees earned.

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

The reconciliation of pro forma fee related earnings and pro forma economic net income (loss) to net income (loss) attributable to Group Holdings as reported in the unaudited pro forma statement of operations consists of the following:

	Year Ended December 31, 2009
Pro forma fee related earnings	$ 247,417
Investment income	1,709,218
Income attributable to noncontrolling interests	(2,691)
Pro forma economic net income (loss)	$ 1,953,944
Income taxes	(83,464)
Amortization of intangibles	(3,788)
Non-cash share based charges	(844,223)
Allocations to former principals	365
Allocation to noncontrolling interests held by KKR Holdings	(770,204)
Pro forma net income (loss) attributable to Group Holdings	$ 252,630

Table of Contents

SELECTED HISTORICAL FINANCIAL AND OTHER DATA

The following tables set forth our selected historical consolidated and combined financial data as of and for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 and unaudited pro forma financial information for the year ended December 31, 2009. We derived the selected historical consolidated and combined data as of December 31, 2008 and 2009 and for the years ended December 31, 2007, 2008 and 2009 from the audited combined financial statements included elsewhere in this prospectus. We derived the selected historical combined data as of December 31, 2005, 2006 and 2007 and for the years ended December 31, 2005 and 2006 from our audited combined financial statements which are not included in this prospectus. The unaudited pro forma financial information was prepared on substantially the same basis as the audited consolidated and combined financial statements and includes all adjustments that we consider necessary for a fair presentation of our consolidated and combined financial information as if the Transactions occurred on January 1, 2009. Because the Transactions and related arrangements were completed on October 1, 2009, their impact is fully reflected in our statement of financial condition as of December 31, 2009. Accordingly, we have not included a pro forma statement of financial condition. You should read the following data together with the "Organizational Structure," "Unaudited Pro Forma Financial Information," "Management's

Table of Contents

Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated and combined financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,					
	2005	2006	2007	2008	2009	Pro Forma(1) 2009
Statement of Operations Data:						
Fees	$ 232,945	$ 410,329	$ 862,265	$ 235,181	$ 331,271	$ 334,377
Less: Total Expenses	168,291	267,466	440,910	418,388	1,195,710	1,413,946
Total Investment Income (Loss)	3,740,899	4,000,922	1,991,783	(12,865,239)	7,753,808	7,380,953
Income (Loss) Before Taxes	3,805,553	4,143,785	2,413,138	(13,048,446)	6,889,369	6,301,384
Income Taxes	2,900	4,163	12,064	6,786	36,998	83,464
Net Income (Loss)	3,802,653	4,139,622	2,401,074	(13,055,232)	6,852,371	6,217,920
Less: Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities	2,870,035	3,039,677	1,598,310	(11,850,761)	6,119,382	5,195,086
Less: Net Income (Loss) Attributable to Noncontrolling Interests Held by KKR Holdings					(116,696)	770,204
Net Income (Loss) Attributable to Group Holdings(2)	$ 932,618	$ 1,099,945	$ 802,764	$ (1,204,471)	$ 849,685	252,630
Statement of Financial Condition Data (period end):						
Total assets	$ 13,369,412	$ 23,292,783	$ 32,842,796	$ 22,441,030	$ 30,221,111	
Total liabilities	$ 418,778	$ 1,281,923	$ 2,575,636	$ 2,590,673	$ 2,859,630	
Noncontrolling interests in consolidated entities	$ 11,518,013	$ 20,318,440	$ 28,749,814	$ 19,698,478	$ 23,275,272	
Noncontrolling interests held by KKR Holdings	$	$	$	$	$ 3,072,360	
Total Group Holdings partners' capital(3)	$ 1,432,621	$ 1,692,420	$ 1,517,346	$ 151,879	$ 1,013,849	

(1) The financial information reported for periods prior to October 1, 2009 does not give effect to the Transactions. The unaudited pro forma financial information gives effect to the Transactions and certain other arrangements entered into in connection with the Transaction as if the Transactions and such arrangements had been completed as of January 1, 2009. For a complete description of these adjustments please see "Unaudited Pro Forma Financial Information."

(2) Subsequent to the Transactions, net income (loss) attributable to Group Holdings reflects only those amounts that are allocable to KKR Guernsey's 30% interest in our Combined Business. Net income (loss) that is allocable to our principals' 70% interest in our Combined Business is reflected in net income (loss) attributable to noncontrolling interests held by KKR Holdings.

(3) Total Group Holdings partners' capital reflects only the portion of equity attributable to Group Holdings (reflecting KKR Guernsey's 30% interest in our Combined Business) and differs from partners' capital reported on a segment basis primarily as a result of the exclusion of the following items from our segment presentation: (i) the impact of income taxes; (ii) charges relating to the amortization of intangible assets; (iii) non-cash equity based charges; and (iv) allocations of equity to KKR Holdings. For a reconciliation to the

$4,152.9 million of partners' capital reported on a segment basis, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Segment Partners' Capital." KKR Holdings' 70% interest in our Combined Business is reflected as noncontrolling interests held by KKR Holdings and is not included in total Group Holdings partners' capital.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated and combined financial statements of Group Holdings and the related notes included elsewhere in this prospectus. The historical combined financial data discussed below reflects the historical results and financial position of KKR. While the historical combined financial statements of KKR are the historical financial statements of the Combined Business following the completion of the Transactions, the data does not give effect to the Transactions and is not necessarily representative of our results and financial condition. See "Organizational Structure" and "Unaudited Pro Forma Financial Information." In addition, this discussion and analysis contains forward-looking statements and involves numerous risks and uncertainties, including those described under "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors." Actual results may differ materially from those contained in any forward-looking statements.

Overview

Led by Henry Kravis and George Roberts, we are a global alternative asset manager with $52.2 billion in AUM as of December 31, 2009 and a 34-year history of leadership, innovation and investment excellence. When our founders started our firm in 1976, they established the principles that guide our business approach today, including a patient and disciplined investment process; the alignment of our interests with those of our investors, portfolio companies and other stakeholders; and a focus on attracting world-class talent.

Our business offers a broad range of asset management services to our investors and provides capital markets services to our firm, our portfolio companies and our clients. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 170 private equity investments with a total transaction value in excess of $425 billion. In recent years, we have grown our firm by expanding our geographical presence and building businesses in new areas, such as fixed income and capital markets. Our new efforts build on our core principles, leverage synergies in our business, and allow us to capitalize on a broader range of opportunities that we source. Additionally, we have increased our focus on servicing our existing investors and have invested meaningfully in developing relationships with new investors.

With over 600 people, we conduct our business through 14 offices on four continents, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. We have grown our AUM significantly, from $15.1 billion as of December 31, 2004 to $52.2 billion as of December 31, 2009, representing a compounded annual growth rate of 28.1%. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

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

Table of Contents

Business Segments

Private Markets

Our Private Markets segment is comprised of our global private equity business, which manages and sponsors a group of investment funds and vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. These funds and vehicles build on our sourcing advantage and the strong industry knowledge, operating expertise and regulatory and stakeholder management skills of our professionals, operating consultants and senior advisors to identify attractive investment opportunities and create and realize value for investors.

From our inception through December 31, 2009, we have raised 15 private equity funds with approximately $59.7 billion of capital commitments and have sponsored a number of fee and carry paying co-investment structures that allow us to commit additional capital to transactions. We have grown our AUM in this segment significantly in recent years, from $14.4 billion as of December 31, 2004 to $38.8 billion as of December 31, 2009, representing a compound annual growth rate of 22.0%. As of December 31, 2009, we had $13.7 billion of uncalled commitments to investment funds and vehicles in this segment, providing a significant source of capital that may be deployed globally.

Public Markets

Our Public Markets segment is comprised primarily of our fixed income businesses which manage capital on behalf of third party investors in liquid credit strategies, such as leveraged loans and high yield bonds, and less liquid credit products, such as mezzanine debt, special situations assets, rescue financing, distressed assets, debtor-in-possession financings and exit financings.

As of December 31, 2009, the segment had $13.4 billion of AUM, including $0.9 billion of assets managed in a publicly traded specialty finance company, $8.1 billion of assets managed in structured finance vehicles and $4.4 billion of assets managed in other types of investment vehicles and separately managed accounts. This AUM includes $0.8 billion of uncalled commitments to this segment.

Capital Markets and Principal Activities

Our Capital Markets and Principal Activities segment combines the assets we acquired in the Combination Transaction with our global capital markets business. Our capital markets business supports our firm, our portfolio companies and our clients by providing services such as arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets advice.

The assets that we acquired in the Combination Transaction have provided us with a significant source of capital to further grow and expand our business, increase our participation in our existing portfolio of businesses and further align our interests with those of our investors and other stakeholders. We believe that the market experience and skills of our capital markets professionals and the investment expertise of professionals in our Private Markets and Public Markets segments will allow us to continue to grow and diversify this asset base over time.

Business Environment

As a global alternative asset manager, we are affected by financial and economic conditions in the United States, Europe, Asia and elsewhere in the world. Although the diversity of our operations and product lines has allowed us to generate attractive returns in different business climates, business conditions characterized by low or declining interest rates and strong equity markets generally provide a more positive environment for us to generate attractive returns on existing investments. We may benefit, however, from periods of market volatility and disruption which allow us to use our large

Table of Contents

capital base and experience with troubled companies to make investments at attractive prices and on favorable terms.

Beginning in the second half of 2007 and throughout 2008 and the first half of 2009, global financial markets experienced significant disruptions and the United States and many other economies experienced a prolonged economic downturn, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. Concerns over the availability and cost of credit, the mortgage market, a declining real estate market, inflation, energy costs and geopolitical issues contributed to increased volatility and diminished expectations for the economy and the financial markets.

Market conditions began to show initial signs of recovery in the last several months of 2009. Most global equity and debt markets moved higher in the second half of 2009 in anticipation of sustained economic recovery. Emerging markets experienced the greatest increase consistent with their generally more favorable economic growth prospects as compared with the United States and Europe. Credit markets experienced similar significant improvement, fueled by improving economic data and a significant increase in demand and liquidity, as credit spreads tightened and implied default rates declined. Recent U.S. economic data have been improving and stabilizing in part, as unemployment rates began to stabilize since October 2009 and the gross domestic product has returned to growth in the latter part of 2009.

While economic conditions have recently improved, that trend may not continue and the extent of the current economic improvement is unknown. Equity values still remain below the values achieved in 2007 and there currently is less debt and equity capital available in the market relative to the levels available in the past. Even if growth continues, it may be at a slow rate for an extended period of time and other economic conditions, such as the residential and commercial real estate environment and employment rates, may continue to be weak. In addition, some economists believe that steps taken by national governments to stabilize financial markets and improve economic conditions could lead to an inflationary environment. Furthermore, financial markets, while somewhat less volatile than in early 2009, may again experience significant disruption.

Market Conditions

Our ability to grow our revenue and net income depends on our ability to continue to attract capital and investors, secure investment opportunities, obtain financing for transactions, consummate investments and deliver attractive investment returns. These factors are impacted by a number of market conditions, including:

- The strength and competitive dynamics of the alternative asset management industry, including the amount of capital invested in, and withdrawn from, alternative investments. Our share of the capital that is allocated to alternative assets depends on the strength of our investment performance relative to the investment performance of our competitors. The amount of capital that we attract and our investment returns directly affect the level of our AUM, which in turn affects the fees, carried interest and other amounts that we earn in connection with our asset management activities.

- The strength and liquidity of debt markets. Our private equity funds use debt financing to fund portfolio company acquisitions, while our fixed income funds make significant investments in debt instruments and, in some cases, use varying degrees of leverage to enhance returns and fund working capital. As a result, our business generally benefits from strong and liquid debt markets that support our funds' investment activities, although periods of market volatility and disruption may create attractive investment opportunities, particularly for fixed income funds.
  As discussed above, significant deterioration in the debt markets that began in the third quarter of 2007 and continued through 2009 has had a negative impact on our business. Among other

Table of Contents

effects, these developments increased the cost and difficulty of financing leveraged buyout transactions thereby significantly reducing private equity activity and impacted valuations and returns of fixed income funds. Increases in rates and spreads along with restrictive covenants, could further impact returns by making debt financing less readily available and more expensive for private equity investments. However, during this period, our portfolio companies have also had opportunities to refinance and in several cases have refinanced certain tranches of their debt. We have also had opportunities to make attractive investments for our fixed income business.

The strength and liquidity of equity markets. Strong equity market conditions enable our private equity funds to increase the value and effect realizations of their portfolio company investments. Equity market conditions also affect the carried interest that we receive. After a prolonged period of positive performance and liquidity, equity markets experienced considerable declines and volatility in the United States and in other markets in the second half of 2007 and throughout 2008. The U.S., European and Asian economies experienced significant declines in employment, household wealth, and lending, which has further negatively impacted equity markets until recently. Negative market conditions make it more difficult for us to exit private equity investments profitably through offerings in the public markets. Equity markets, however, stabilized and showed signs of recovery in the latter half of 2009, allowing us to partially exit two investments through the public markets, though it is uncertain whether such markets will remain accessible. We monitor the performance of our private equity investments and exit an investment when we believe the strategic and operational objectives with respect to that investment have been accomplished. The governing documents of our private equity funds do not obligate us to return amounts to our investors at their request or require that the fund sell assets to generate returns.

Market volatility within the debt and equity markets increases both the opportunities and risks within our segments and directly affects the performance of our funds. Similarly, fluctuations in interest rates and foreign currency exchange rates, if not suitably hedged, may affect the performance of our funds. Historical trends in these markets are not necessarily indicative of our future performance. While conditions in the United States and global economies have begun to improve recently, continued volatility in the equity markets and uncertainty in the debt markets have made it more challenging to profit from investments. If these conditions continue, their negative impact on our business may become more pronounced.

For a more detailed description of the manner in which economic and financial market conditions may materially affect the results of operations and financial condition of the Combined Business, see "Risk Factors Risks Related to Our Business."

The Combination Transaction and Reorganization Transactions

On October 1, 2009, we completed the acquisition of all of the assets and liabilities of KKR Guernsey and, in connection with such acquisition, completed a series of transactions pursuant to which the business of KKR was reorganized into a holding company structure. We refer to these transactions as the "Transactions." Following the Transactions, KKR Guernsey held a 30% economic interest in our Combined Business through Group Holdings and our principals held a 70% economic interest in our Combined Business through KKR Holdings. Our senior principals also control us through their control of our Managing Partner. The Combination Transaction did not involve the payment of any cash consideration or involve an offering of any newly issued securities to the public, and it did not change KKR Guernsey unitholders' holdings of KKR Guernsey units.

Table of Contents

Pro Forma Information

Due to the differences described above, our consolidated and combined financial statements and related historical data included in this prospectus are not necessarily representative of our future results of operations and financial condition. To provide additional information illustrating the impact that the changes described above have on our results of operations, we have presented elsewhere in this prospectus unaudited pro forma financial information for the year ended December 31, 2009. This data gives pro forma effect to the Transactions and certain other arrangements entered into in connection therewith as if such transactions and arrangements had been completed as of January 1, 2009.

Basis of Financial Presentation

The consolidated and combined financial statements include the accounts of our management and capital markets companies, the general partners of certain unconsolidated co-investment vehicles and the general partners of its private equity and fixed income funds and their respective consolidated funds, where applicable. As of December 31, 2009, our private markets segment included seven consolidated investment funds and six unconsolidated co-investment vehicles. Our public markets segment included three consolidated investment funds and four unconsolidated vehicles comprised of one investment fund, two separately managed accounts and one specialty finance company.

In accordance with GAAP, a substantial number of our funds are consolidated notwithstanding the fact that we hold only a minority economic interest in those funds. The majority of our consolidated funds consist of those funds in which we hold a general partner or managing member interest that gives us substantive controlling rights over such funds. With respect to our consolidated funds, we generally have operational discretion and control over the funds and investors do not hold any substantive rights that would enable them to impact the funds' ongoing governance and operating activities.

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

Historically, the noncontrolling interests attributable to the ownership of the KPE Investment Partnership by KPE were included in our financial statements. These noncontrolling interests were removed from the financial statements on October 1, 2009, because these interests were contributed to the KKR Group Partnerships in the Transactions. Subsequent to the Transactions, the KKR Group Partnerships hold 100% of the economic and controlling interests in the KPE Investment Partnership. Therefore, we continue to consolidate the KPE Investment Partnership and its economic interests are no longer reflected as noncontrolling interests as of the date of the Transactions.

Key Financial Measures

Fees

Fees consist primarily of (i) monitoring and transaction fees from providing advisory and other services to our portfolio companies, (ii) management and incentive fees from providing investment management services to unconsolidated funds, a specialty finance company, structured finance vehicles,

Table of Contents

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

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

Expenses

Employee Compensation and Benefits Expense

Employee compensation and benefits expense includes salaries, bonuses, equity-based compensation and profit sharing plans as described below.

Historically, our employee compensation and benefits expense has consisted of base salaries and bonuses paid to employees who were not our senior principals. Payments made to our senior principals included partner distributions that were paid to our senior principals and accounted for as capital distributions rather than employee compensation and benefits expense. Accordingly, we did not record any employee compensation and benefits charges for payments made to our senior principals for periods prior to the completion of the Transactions.

Following the completion of the Transactions, all of our senior principals and other employees receive a base salary that is paid by us and accounted for as employee compensation and benefits expense. Our employees are also eligible to receive discretionary cash bonuses based on performance criteria, our overall profitability and other matters. While cash bonuses paid to most employees are funded by us and result in customary employee compensation and benefits charges, cash bonuses that are paid to certain of our most senior employees are funded by KKR Holdings with distributions that it receives on its KKR Group Partnership Units. To the extent that distributions received by these individuals exceed the amounts that they are otherwise entitled to through their vested interests in KKR Holdings, this excess will be funded by KKR Holdings and reflected in compensation expense in the statement of operations. KKR Holdings has also funded all of the equity and equity-based awards that have been granted to our employees to date.

In connection with the Transactions, our principals received equity and equity-based awards in KKR Holdings. These awards were issued in exchange for interests in the Combined Business that they contributed to our holding companies as part of our internal reorganization as well as to promote broad ownership of our firm among our personnel and further align their interests with those of our investors. We believe that these grants, which include vested and unvested interests in the Combined Business, provide an additional means for allowing us to incentivize, motivate and retain qualified professionals that will help us continue to grow our business over the long-term. For the fourth quarter of 2009, non-cash employee compensation and benefits recognized for the initial equity grants amounted to $274.8 million.

While we do not bear the economic costs associated with the equity and equity-based grants that KKR Holdings has made to our employees or the cash bonuses that it pays to any of our executives with distributions received on its KKR Group Partnership Units, we are required to recognize employee compensation and benefits expense with respect to a significant portion of these items. Because these amounts are funded by KKR Holdings and not by us, these expenses represent non-cash charges for us and do not impact our distributable earnings.

Table of Contents

We recognize non-cash charges relating to equity and equity-based grants that are funded by KKR Holdings based on the grant-date fair value of the award. Awards that do not require the satisfaction of future service or performance criteria (vested awards) are expensed immediately. Awards that require the satisfaction of future service or performance criteria are expensed over the relevant service period, adjusted for the lack of distribution participation and estimated forfeitures of awards not expected to vest. Because a portion of the awards that were granted by KKR Holdings were vested upon issuance, we incurred a significant one-time, non-cash employee compensation and benefits charge in our financial statements during the fourth quarter of 2009 relating to initial equity grants. We expect to record additional non-cash charges in future periods as and when interests in KKR Holdings vest.

In addition, we are permitted to allocate to our principals, other professionals and selected other individuals a portion of the carried interest that we earn from our current and future funds that provide for carried interest payments. As and when investment income is recognized with respect to this carried interest, we record a corresponding amount of employee compensation and benefits expense. See "Organizational Structure Components of Our Business Owned by the KKR Group Partnerships."

General, Administrative and Other Expense

General, administrative and other expense consists primarily of professional fees paid to legal advisors, accountants, advisors and consultants, insurance costs, travel and related expenses, communications and information services, depreciation and amortization charges and other general and operating expenses.

In addition, interests in KKR Holdings were granted to our operating consultants in connection with the Transactions. The vesting of these interests gives rise to periodic general, administrative and other expense in the statements of operations. General, administrative and other expense recognized on unvested units is calculated based on the fair value of an interest in KKR Holdings (determined using the closing price of KKR Guernsey's units) on each reporting date and subsequently adjusted for the actual fair value of the award at each vesting date. Accordingly, the measured value of these interests will not be finalized until each vesting date. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 3% annually based upon expected turnover. For the fourth quarter of 2009, general, administrative and other expense recognized for the initial equity grants amounted to $59.5 million. General, administrative and other expense is not borne by fund investors and is not offset by credits attributable to fund investors' noncontrolling interests in consolidated funds.

Fund Expenses

Fund expenses consist primarily of costs incurred in connection with pursuing potential investments that do not result in completed transactions (such as travel expenses, professional fees and research costs) and other costs associated with administering our private equity funds. A substantial portion of fund expenses are borne by fund investors.

Investment Income (Loss)

Net Gains (Losses) from Investment Activities

Net gains (losses) from investment activities consists of realized gains and losses and unrealized gains and losses arising from our investment activities. The majority of our net gains (losses) from investment activities are related to our private equity investments. Fluctuations in net gains (losses) from investment activities between reporting periods is driven primarily by changes in the fair value of our investment portfolio as well as the realization of investments. Upon the disposition of an investment, previously recognized unrealized gains and losses are reversed and an offsetting realized gain or loss is recognized in the current period. Since our investments are carried at fair value, fluctuations between periods could be significant due to changes to the inputs to our valuation process

Table of Contents

over time. For a further discussion of our fair value measurements and fair value of investments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Fair Value of Investments."

Dividend Income

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

Interest Income

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

Interest Expense

Interest expense is incurred from three primary sources: (i) credit facilities outstanding at the KPE Investment Partnership, (ii) credit facilities outstanding at the firm's management companies and capital markets companies for working capital purposes, and (iii) debt outstanding at our consolidated funds entered into with the objective of enhancing returns, which are not direct obligations of the general partners of our private equity funds or management companies. In addition to these interest costs, we capitalize debt financing costs incurred in connection with new debt arrangements. Such costs are amortized into interest expense using either the interest method or the straight-line method, as appropriate.

Income Taxes

Prior to the completion of the Transactions, we operated as a partnership for U.S. federal income tax purposes and mainly as a corporate entity in non-U.S. jurisdictions. As a result, income was not subject to U.S. federal and state income taxes. Historically, the tax liability related to income earned by us represented obligations of our principals and has not been reflected in the historical financial statements. Income taxes shown on the statements of operations prior to the Transactions are attributable to the New York City unincorporated business tax and other income taxes on certain entities located in non-U.S. jurisdictions.

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

Subsequent to the Transactions, we use the liability method to account for income taxes in accordance with GAAP. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted.

Table of Contents

Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all the deferred tax assets will not be realized.

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

Net Income (Loss) Attributable to Noncontrolling Interests

Net income (loss) attributable to noncontrolling interests represents the ownership interests that third parties hold in entities that are consolidated in the financial statements. The allocable share of income and expense attributable to those interests is accounted for as net income (loss) attributable to noncontrolling interests. Historically, the amount of net income (loss) attributable to noncontrolling interests has been substantial and has resulted in significant charges and credits in the statements of operations. For periods prior to the Transactions, noncontrolling interests consisted primarily of:

- noncontrolling interests that third party investors held in consolidated funds;
- noncontrolling interests attributable to the ownership of the KPE Investment Partnership by KPE's unitholders;
- a noncontrolling interest that allocated to a third party an aggregate of 2% of the equity in our capital markets business; and
- noncontrolling interests that allocated 35% of the net income (loss) generated by the manager of our Public Markets segment to certain of its principals on an annual basis through May 30, 2008.

On May 30, 2008, we acquired all outstanding noncontrolling interests of the manager of our Public Markets segment and now own 100% of this business. In connection with the Transactions, we acquired all outstanding noncontrolling interests in the KPE Investment Partnership, which is a wholly owned subsidiary of our firm.

For periods subsequent to the completion of the Transactions, noncontrolling interests include:

- noncontrolling interests that allocate to a former principal and such person's designees an aggregate of 1% of the carried interest received by general partners of our funds and 1% of our other profits until a future date;
- noncontrolling interests that allocate to certain of our former principals and their designees a portion of the carried interest received by the general partners of the private equity funds with respect to private equity investments made during such former principals' tenure with us;
- noncontrolling interests that allocate to certain of its current and former principals all of the capital invested by or on behalf of the general partners of the private equity funds before the completion of the Transactions and any returns thereon; and
- noncontrolling interests representing the KKR Group Partnership Units that KKR Holdings holds in the KKR Group Partnerships.

Assets Under Management ("AUM")

AUM represents the assets from which we are entitled to receive fees or a carried interest and general partner capital. The AUM reported prior to the Transactions reflected the NAV of KPE and its commitments to our investment funds. Subsequent to the Transactions, the NAV of KPE and its commitments to our investment funds are excluded from our calculation of AUM. We calculate the amount of AUM as of any date as the sum of: (i) the fair value of the investments of our investment funds plus uncalled capital commitments from these funds; (ii) the fair value of investments in our co-investment vehicles; (iii) the net asset value of certain of our fixed income products; and (iv) the value of outstanding structured finance vehicles. You should note that our calculation of AUM may differ from the calculations of other asset managers and, as a result, our measurements of AUM may not be comparable to similar measures presented by other asset managers. Our definition of AUM is not based on any definition of AUM that is set forth in the agreements governing the investment funds, vehicles or accounts that we manage.

Fee Paying Assets Under Management ("FPAUM")

FPAUM represents only those assets under management from which we receive fees. FPAUM is the sum of all of the individual fee bases that are used to calculate our fees and differs from AUM in the following respects: (i) assets from which we do not receive a fee are excluded (i.e., assets with respect to which we receive only carried interest); and (ii) certain assets, primarily in our private equity funds, are reflected based on capital commitments or invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments.

Segment Results

We present the results of our reportable business segments in accordance with FASB Accounting Standards Codification Section 280, *Segment Reporting*. This guidance is based on a management approach, which requires segment presentation based on internal organization and the internal financial reporting used by management to make operating decisions, assess performance and allocate resources. All inter-segment transactions are eliminated in the segment presentation.

Our management makes operating decisions, assesses performance and allocates resources based on financial and operating data and measures that are presented without giving effect to the consolidation of any of the funds that we manage. In addition, there are other components of our reportable segment results that differ from the equivalent GAAP results on a consolidated basis. These differences are described below. We believe such adjustments are meaningful because management makes operating decisions and assesses the performance of our business based on financial and operating metrics and data that are presented without the consolidation of any funds.

Segment Operating and Performance Measures

Fee Related Earnings

Fee related earnings ("FRE") is a profit measure that is reported by our three reportable business segments. FRE is comprised of segment operating revenues, less segment operating expenses. The components of FRE on a segment basis differ from the equivalent U.S. GAAP amounts on a combined basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of expenses of consolidated funds; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity charges and other non-cash compensation charges; (vi) the exclusion of certain reimbursable expenses and (vii) the exclusion of certain non-recurring items.

Economic Net Income

Economic net income ("ENI") is a key performance measure used by management when making operating decisions, assessing operating performance and allocating resources. ENI is comprised of: (i) FRE; plus (ii) segment investment income, which is reduced for carry pool allocations and management fee refunds; less (iii) certain economic interests in our segments held by third parties. ENI differs from net income on a U.S. GAAP basis as a result of: (i) the exclusion of the items referred to in FRE above; (ii) the exclusion of investment income relating to noncontrolling interests; and (iii) the exclusion of income taxes.

Table of Contents

Committed Dollars Invested

Committed dollars invested is the aggregate amount of capital commitments that have been invested by our investment funds and carry-yielding co-investment vehicles during a given period. Such amounts include: (i) capital invested by fund investors and co-investors with respect to which we are entitled to a carried interest and (ii) capital invested by us.

Uncalled Commitments

Uncalled commitments represent unfunded capital commitments by partners of our investment funds and carry-yielding co-investment vehicles to contribute capital to make investments in portfolio companies and other investment alternatives.

Consolidated and Combined Results of Operations

The following is a discussion of our consolidated and combined results of operations for the years ended December 31, 2007, 2008 and 2009. You should read this discussion in conjunction with the consolidated and combined financial statements and related notes included elsewhere in this document. For a more detailed discussion of the factors that affected the results of operations of our three business segments in these periods, see " Segment Analysis."

The following tables set forth information regarding our results of operations for the years ended December 31, 2007, 2008 and 2009.

	Year Ended December 31,		
	2007	**2008**	**2009**
Revenues			
Fees	$ 862,265	$ 235,181	$ 331,271
Expenses			
Employee Compensation and Benefits	212,766	149,182	838,072
Occupancy and Related Charges	20,068	30,430	38,013
General, Administrative and Other	128,036	179,673	264,396
Fund Expenses	80,040	59,103	55,229
Total Expenses	440,910	418,388	1,195,710
Investment Income (Loss)			
Net Gains (Losses) from Investment Activities	1,111,572	(12,944,720)	7,505,005
Dividend Income	747,544	75,441	186,324
Interest Income	218,920	129,601	142,117
Interest Expense	(86,253)	(125,561)	(79,638)
Total Investment Income (Loss)	1,991,783	(12,865,239)	7,753,808
Income (Loss) Before Taxes	2,413,138	(13,048,446)	6,889,369
Income Taxes	12,064	6,786	36,998
Net Income (Loss)	2,401,074	(13,055,232)	6,852,371
Less: Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities	1,598,310	(11,850,761)	6,119,382
Less: Net Income (Loss) Attributable to Noncontrolling Interests held by KKR Holdings			(116,696)
Net Income (Loss) Attributable to KKR Group	$ 802,764	$ (1,204,471)	$ 849,685
Assets under management (period end)	$ 53,215,700	$ 48,450,700	$ 52,204,200
Fee paying assets under management (period end)	$ 39,862,168	$ 43,411,800	$ 42,779,800

Uncalled Commitments (period end)	$ 11,530,417	$ 14,930,142	$ 14,544,427

Table of Contents

Year ended December 31, 2009 compared to year ended December 31, 2008

Fees

Fees were $331.3 million for the year ended December 31, 2009, an increase of $96.1 million, or 40.9%, from the year ended December 31, 2008. The increase was primarily due to a $50.5 million increase in transaction fees, from $41.3 million to $91.8 million for the years ended December 31, 2008 and 2009, respectively reflecting an increase in transaction-fee generating private equity investments during the period. During the year ended December 31, 2009, we completed twelve transaction-fee generating transactions compared to four transaction-fee generating transactions in 2008. Transaction fees are negotiated separately for each completed transaction based on the services that we provide and will also vary depending on the nature of the investment being made. Monitoring fees increased $39.2 million reflecting the net impact of (i) an increase of $72.2 million relating to fees received for the termination of monitoring fee contracts in connection with public equity offerings of two of our portfolio companies, (ii) a decrease relating to the receipt in the prior period of a non-recurring $15.0 million advisory fee from one of our portfolio companies in connection with equity raised by that company, (iii) a $6.8 million net decrease in reimbursable expenses and (iv) a net decrease of $11.2 million in fees received from certain portfolio companies due primarily to a decline in the number of portfolio companies paying a fee and to a lesser extent lower average fees received. During the year ended December 31, 2009, excluding one-time fees received from the termination of monitoring fee contracts, we had 30 portfolio companies that were paying an average fee of $2.9 million compared with 33 portfolio companies that were paying an average fee of $3.0 million during the year ended December 31, 2008. In addition, during 2009 fees were increased by a third quarter incentive fee of $4.5 million earned from KFN as a result of KFN's financial performance exceeding certain required benchmarks. No such fee was earned in the prior period.

Expenses

Expenses were $1,195.7 million for the year ended December 31, 2009, an increase of $777.3 million, as compared to expenses of $418.4 million for the year ended December 31, 2008. The increase was primarily due to non-cash charges associated with the issuance of interests in KKR Holdings to our principals and operating consultants. For the year ended December 31, 2009, non-cash employee compensation and benefits relating to principals amounted to $644.5 million, and non-cash charges recorded in general and administrative expenses relating to operating consultants amounted to $85.0 million. In addition, other employee compensation and benefits expenses increased $44.4 million due to (i) a $26.9 million increase in profit sharing costs in connection with an increase in the value of our private equity portfolio, (ii) an $11.7 million increase in salaries and other benefits reflecting the hiring of additional personnel in connection with the expansion of our business, and (iii) a $5.8 million increase in incentive compensation in connection with higher bonuses in 2009 reflecting improved overall financial performance of our management companies when compared to the prior period. The remainder of the net increase in expenses is the result of the net impact of the following: (i) a $34.8 million non-recurring charge associated with the closing of the Transactions, (ii) an increase in occupancy costs of $7.6 million primarily reflecting the opening of new offices subsequent to December 31, 2008 as well as an increase in existing office space, (iii) a decrease in transaction related expenses attributable to unconsummated transactions during the period of $14.0 million, from $28.2 million to $14.2 million for the years ended December 31, 2008 and 2009, respectively, and (iv) decreases in other operating expenses of $25.0 million reflecting expense reductions across the majority of our businesses.

Net Gains (Losses) from Investment Activities

Net gains from investment activities were $7.5 billion for the year ended December 31, 2009, an increase of $20.4 billion compared to net losses from investment activities of $12.9 billion for the year ended December 31, 2008. The increase in net gains (losses) from investment activities from the prior

Table of Contents

period was primarily attributable to net unrealized gains of $7.8 billion resulting primarily from increases in the market value of our investment portfolio during 2009 compared to net unrealized losses of $13.2 billion during 2008. This change in net unrealized gains and losses resulted in a net favorable variance in unrealized investment activity from the prior period of $21.0 billion. Offsetting the increase in unrealized gains (losses) was realization activity that represented a net loss for 2009 of $0.3 billion compared with a net gain of $0.3 billion for 2008, which resulted in a net unfavorable variance in realization activity from the prior period of $0.6 billion. The majority of our net gains (losses) from investment activities are related to our private equity investments. The following is a summary of the components of net gains (losses) from investment activities:

	Year Ended December 31,	
	2009	2008
	($ in thousands)	
Realized Gains	$ 393,310	$ 446,856
Unrealized Losses from Sales of Investments and Realization of Gains(a)	(498,839)	(345,477)
Realized Losses	(707,717)	(193,446)
Unrealized Gains from Sales of Investments and Realization of Losses(b)	683,696	101,402
Unrealized Gains from Changes in Fair Value	9,831,344	2,681,711
Unrealized Losses from Changes in Fair Value	(2,196,789)	(15,635,766)
Net Gains (Losses) from Investment Activities	$ 7,505,005	$ (12,944,720)

(a) Amounts represent the reversal of previously recognized unrealized gains in connection with realization events where such gains become realized.

(b) Amounts represent the reversal of previously recognized unrealized losses in connection with realization events where such losses become realized.

Dividend Income

Dividend income was $186.3 million for the year ended December 31, 2009, an increase of $110.9 million compared to dividend income of $75.4 million for the year ended December 31, 2008. Our dividends are generally earned in connection with sales of significant operations undertaken by our portfolio companies resulting in available cash that is distributed to our private equity funds. During the year ended December 31, 2009, we received $179.2 million of dividends from two portfolio companies and an aggregate of $7.1 million of comparatively smaller dividends from other investments.

Interest Income

Interest income was $142.1 million for the year ended December 31, 2009, an increase of $12.5 million, or 9.7%, from the year ended December 31, 2008. The increase primarily reflects an increase of $38.1 million at one of our fixed income vehicles resulting from a higher average level of debt investments during the period. Offsetting this increase was (i) a decrease of $19.9 million at the KPE Investment Partnership due to a decrease in interest income-yielding investments, (ii) a $2.0 million decrease as a result of the exclusion of the general partners of the 1996 Fund in the fourth quarter of 2009, which interests were not contributed to the KKR Group Partnerships in connection with the Transactions, and (iii) a $3.7 million decrease at our management companies and private equity funds resulting from lower average cash balances.

Table of Contents

Interest Expense

Interest expense was $79.6 million for the year ended December 31, 2009 a decrease of $45.9 million, or 36.6%, from the year ended December 31, 2008. Average outstanding borrowings remained unchanged from the year ended December 31, 2008, however the weighted average interest rate was lower during the year ended December 31, 2009 as compared to the prior year period.

Income (Loss) Before Taxes

Due to the factors described above, income before taxes was $6.9 billion for the year ended December 31, 2009, an increase of $19.9 billion compared to loss before taxes of $13.0 billion for the year ended December 31, 2008.

Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities

Net income attributable to noncontrolling interests in consolidated entities was $6.1 billion for the year ended December 31, 2009, an increase of $18.0 billion compared to net loss attributable to noncontrolling interests in consolidated entities of $11.9 billion for the year ended December 31, 2008. The increase primarily reflects higher income attributable to noncontrolling interests, which were driven by the overall changes in the components of net gains (losses) from investment activities described above.

Assets Under Management

The following table reflects the changes in our assets under management from December 31, 2008 to December 31, 2009:

December 31, 2008 AUM	$ 48,450,700
Exclusion of KPE(a)	(3,577,000)
New Capital Raised	2,099,600
Distributions	(2,808,600)
Investor Redemptions	(634,700)
Change in Value	8,674,200
December 31, 2009 AUM	$ 52,204,200

(a) The assets under management reported prior to the Transactions reflected the NAV of KPE and its commitments to our funds. Subsequent to the Transactions, the NAV of KPE and its commitments to our funds are excluded from our calculation of assets under management, because these assets are now owned by us and no longer managed on behalf of a third-party investor.

AUM was $52.2 billion at December 31, 2009, an increase of $3.7 billion, or 7.6%, compared to $48.5 billion at December 31, 2008. The increase was primarily attributable to $8.7 billion in net unrealized gains resulting from changes in the market value of our private equity portfolio companies and fixed income investment vehicles, as well as $2.1 billion of new capital raised in our private equity funds and separately managed accounts. The net unrealized investment gains in our private equity funds were driven by net unrealized gains of $2.7 billion, $1.7 billion, $0.8 billion, $0.8 billion and $0.4 billion in our 2006 Fund, Millennium Fund, European Fund II, European Fund and Asian Fund, respectively, with all other private equity funds also recording net unrealized gains during the period. Increased valuations in many of our portfolio companies, which were primarily related to both improvements in market comparables and individual company performance, coupled with an overall improvement in global markets, were the main contributors to the unrealized investment gains. Net unrealized gains in our separately managed accounts, fixed income investment funds and structured

Table of Contents

finance vehicles were $1.0 billion, $0.3 billion and $0.2 billion, respectively and were driven by improvements in the overall credit markets. Our investment portfolios for KFN, the Strategic Capital Funds, and our separately managed accounts primarily consisted of investments in corporate debt investments, including leveraged loans and high yield bonds, with both asset classes experiencing material price appreciation in the fiscal year ended December 31, 2009. This increase was partially offset by distributions totaling $2.8 billion, which included $2.0 billion from our fixed income investment vehicles due to the restructuring of a structured finance vehicle and $0.8 billion from our private equity funds (comprised of $0.5 billion of realized gains and $0.3 billion of return of original cost), as well as $0.6 billion of capital returned to investors in redemptions from one of our fixed income funds. In addition, the change in AUM from December 31, 2008 included a $3.6 billion reduction representing the exclusion of the NAV of KPE and its commitments to our funds.

Fee Paying Assets Under Management

The following table reflects the changes in our fee paying assets under management from December 31, 2008 to December 31, 2009:

December 31, 2008 FPAUM	$ 43,411,800
Exclusion of KPE(a)	(3,238,500)
New Capital Raised	2,009,000
European Fund III/E2 Investors	(571,600)
Distributions	(325,058)
Investor Redemptions	(634,700)
Change in Value	2,128,858
December 31, 2009 FPAUM	$ 42,779,800

(a) The fee paying assets under management reported prior to the Transactions reflected the NAV of KPE. Subsequent to the Transactions, the NAV of KPE is excluded from our calculation of fee paying assets under management, because these assets are now owned by us and are no longer managed on behalf of a third-party investor.

FPAUM was $42.8 billion at December 31, 2009, a decrease of $0.6 billion, or 1.4%, compared to $43.4 billion at December 31, 2008. The decrease was primarily attributable to a $3.2 billion reduction representing the exclusion of the NAV of KPE and its commitments to our investment funds. In addition, the change in FPAUM included investor redemptions from one of our fixed income funds of $0.6 billion, distributions of $0.3 billion primarily representing the reduction of fee paying invested capital associated with realization activity in our private equity funds, and $0.6 billion related to committed capital that was transferred from a fee paying private equity fund (European Fund III) to a non-fee paying private equity fund (E2 Investors). E2 Investors was created to provide our investors with the ability to make follow-on investments in current European Fund II portfolio companies that improve such companies' capital structure, or to take advantage of the dislocation in the capital markets, generally by using a portion of the investors' uncalled commitments to our European Fund III. As an incentive, E2 Investors was structured to allow these investors to invest on a no-management fee basis. These decreases were partially offset by $2.1 billion in net unrealized gains primarily resulting from changes in the market value of our fixed income investment vehicles, and to a lesser extent foreign exchange adjustments on foreign denominated committed and invested capital, as well as new capital raised of $2.0 billion in our private equity funds and separately managed accounts. For additional discussion of our funds and other investment vehicles, please see "Business."

Table of Contents

Uncalled Commitments

As of December 31, 2009, our investment funds had $14.5 billion of remaining uncalled commitments that could be called for investment in new transactions.

Year ended December 31, 2008 Compared to Year ended December 31, 2007

Fees

Fees were $235.2 million for the year ended December 31, 2008, a decrease of $627.1 million, or 72.7%, from the year ended December 31, 2007. The decrease was primarily due to a $641.8 million decrease in transaction fees, from $683.1 million to $41.3 million for the years ended December 31, 2007 and 2008, respectively, reflecting a decrease in transaction-fee generating private equity investments during the period. During the year ended December 31, 2008, we completed four transaction-fee generating transactions compared to thirteen transaction-fee generating transactions during the year ended December 31, 2007. Transaction fees are negotiated separately for each completed transaction based on the services that we provide and will also vary depending on the nature of the investment being made. In addition, management and incentive fees relating to KFN decreased $27.9 million primarily as a result of adverse credit market conditions. During the first, second and third quarters of 2007, we earned incentive fees from KFN totaling $17.5 million whereas in 2008 no such fees were earned due to KFN's financial performance not exceeding certain required benchmarks. Offsetting these decreases was a $41.8 million increase in monitoring fees primarily reflecting an increase in the average monitoring fee received as well as the receipt of a non-recurring $15.0 million advisory fee from one of our portfolio companies. During the year ended December 31, 2008, we had 33 portfolio companies that were paying an average fee of $3.0 million, compared with 40 portfolio companies that were paying an average fee of $1.7 million during the year ended December 31, 2007.

Expenses

Expenses were $418.4 million for the year ended December 31, 2008, a decrease of $22.5 million, or 5.1%, from the year ended December 31, 2007. The decrease was primarily due to a $63.6 million decrease in employee compensation and benefits resulting from a decrease in incentive compensation in connection with lower bonuses in 2008 reflecting less favorable overall financial performance of our management companies when compared to the prior period, offset by increases relating to the hiring of additional personnel after December 31, 2007 in connection with the expansion of our business. Offsetting this decrease is the net impact of the following: (i) an increase in other operating expenses of $43.2 million primarily as a result of an increase in expenses in connection with the overall growth of our existing businesses; (ii) an increase in occupancy charges of $10.4 million reflecting the opening of new offices in Beijing, Sydney, Houston and Washington, D.C. subsequent to December 31, 2007 as well as an increase in existing office space, and (iii) a decrease in transaction related expenses of $12.5 million attributable to unconsummated transactions during the period, from $40.7 million to $28.2 million for the years ended December 31, 2007 and 2008, respectively, reflecting a slowdown in the overall level of investment activity during the period.

Net Gains (Losses) from Investment Activities

Net losses from investment activities were $12.9 billion for the year ended December 31, 2008, a decrease of $14.1 billion compared to net gains from investment activities of $1.1 billion for the year ended December 31, 2007. The overall decrease in net gains (losses) from investment activities from the prior period was primarily attributable to a net decrease in changes in unrealized gains (losses) of $12.8 billion resulting primarily from decreases in the market value of our investment portfolio and to a lesser extent a decline in net realized gains of $1.3 billion resulting primarily from a lower level of realization activity during the period. Substantially all of our net gains (losses) from investment

Table of Contents

activities are related to our private equity investments. The following is a summary of the components of net gains (losses) from investment activities:

	Year Ended December 31, 2008	Year Ended December 31, 2007
	($ in thousands)	
Realized Gains	$ 446,856	$ 1,885,562
Unrealized Losses from Sales of Investments and Realization of Gains(a)	(345,477)	(1,709,601)
Realized Losses	(193,446)	(328,461)
Unrealized Gains from Sales of Investments and Realization of Losses(b)	101,402	255,720
Unrealized Gains from Changes in Fair Value	2,681,711	4,732,096
Unrealized Losses from Changes in Fair Value	(15,635,766)	(3,723,744)
Net Gains (Losses) from Investment Activities	$ (12,944,720)	$ 1,111,572

(a) Amounts represent the reversal of previously recognized unrealized gains in connection with realization events where such gains become realized.

(b) Amounts represent the reversal of previously recognized unrealized losses in connection with realization events where such losses become realized.

Dividend Income

Dividend income was $75.4 million for the year ended December 31, 2008, a decrease of $672.1 million, or 89.9%, from the year ended December 31, 2007. Our dividends are generally earned in connection with sales of significant operations undertaken by our portfolio companies resulting in available cash that is distributed to our private equity funds. During the year ended December 31, 2008, we received $74.2 million of dividends from two portfolio companies and an aggregate of $1.2 million of comparatively smaller dividends from other investments. During the year ended December 31, 2007, we received $717.7 million of dividends from eight portfolio companies and an aggregate of $29.8 million of comparatively smaller dividends from four portfolio companies.

Interest Income

Interest income was $129.6 million for the year ended December 31, 2008, a decrease of $89.3 million, or 40.8%, from the year ended December 31, 2007. The decrease primarily reflects a $63.7 million decrease in interest income earned in our Public Markets segment that was attributable to the deconsolidation, during the second quarter of 2007, of one of the structured finance vehicles that we manage as well as a decrease of $66.6 million in interest income earned from cash management activities at the KPE Investment Partnership following the deployment of a greater percentage of its cash to investments. Cash management activities resulting in lower cash balances at our management companies resulted in a decrease in interest income of $7.3 million. Offsetting these decreases were increases in income earned from cash management activities at our private equity funds of $48.3 million.

Interest Expense

Interest expense was $125.6 million for the year ended December 31, 2008, an increase of $39.3 million, or 45.6%, from the year ended December 31, 2007 and average outstanding borrowings were $2.2 billion and $1.5 billion for the years ended December 31, 2008 and 2007, respectively. The increase was primarily attributable to increased borrowings at the KPE Investment Partnership and leveraged structures used by the KPE Investment Partnership and our private equity funds to enhance

Table of Contents

returns on certain assets which collectively resulted in the recognition of $61.2 million of additional interest expense. In addition, interest expense increased at our management company and capital markets business by $9.8 million. This increase was due primarily to an increase in borrowings at the management company resulting in an additional $5.1 million in interest expense as well as the amortization of deferred financing costs incurred in connection with credit agreements entered into in early 2008 of $4.7 million. These increases were offset by a decrease of $31.7 million in our Public Markets segment resulting primarily from the deconsolidation, during the second quarter of 2007, of one of the structured finance vehicles that we manage.

Income (Loss) before Taxes

Due to the factors described above, loss before taxes was $13.0 billion for the year ended December 31, 2008, a decrease of $15.5 billion compared to income before taxes of $2.4 billion for the year ended December 31, 2007.

Net (Loss) Income Attributable to Noncontrolling Interests

Net (loss) income attributable to noncontrolling interests was $11.9 billion for the year ended December 31, 2008, a decrease of $13.4 billion compared to income attributable to noncontrolling interests of $1.6 billion for the year ended December 31, 2007. The decrease primarily reflects net loss attributable to noncontrolling interests, which were driven by the overall changes in the components of net gains (losses) from investment activities described above.

Assets Under Management

The following table reflects the changes in our assets under management from December 31, 2007 to December 31, 2008:

December 31, 2007 AUM	$	53,215,700
New Capital Raised		11,075,000
Distributions		(605,531)
Change in Value		(15,234,469)
December 31, 2008 AUM	$	48,450,700

AUM was $48.5 billion as of December 31, 2008, a decrease of $4.7 billion, or 8.8%, from December 31, 2007. The decrease was due primarily to $12.7 billion of net unrealized losses resulting from changes in the market values of the portfolio companies in our Private Markets segment, a $2.5 billion decrease in capital relating to one fixed income fund and certain structured finance vehicles that we manage, and $0.6 billion of distributions from our traditional private equity funds comprised of $0.5 billion of realized gains and $0.1 billion of original cost. The net unrealized investment losses in our private equity funds were driven by net unrealized losses of $3.4 billion, $3.0 billion, $2.6 billion, and $1.0 billion in our 2006 Fund, European Fund II, Millennium Fund, and European Fund, respectively, and $1.6 billion in KPE. All other private equity funds also recorded net unrealized losses during the period. Decreased valuations in many of our portfolio companies, in the aggregate, which were impacted by decreases in market comparables and individual company performance, coupled with global economies that were in recession, were the main contributors to the unrealized investment losses. Net unrealized losses in our specialty finance company, fixed income funds and separately managed accounts were $1.3 billion, $0.8 billion and $0.3 billion, respectively. Our managed entities held investments in corporate debt investments, including leveraged loans and high yield bonds, which experienced material price deterioration in the fiscal year ended December 31, 2008. These decreases were offset by the formation of the European Fund III, which received $6.4 billion of capital

Table of Contents

commitments from fund investors during 2008 and a $4.6 billion increase associated with capital managed on behalf of third party investors in our Public Markets segment.

Fee Paying Assets Under Management

The following table reflects the changes in our fee paying assets under management from December 31, 2007 to December 31, 2008:

December 31, 2007 FPAUM	$ 39,862,168
New Capital Raised	8,775,000
Distributions	(755,387)
Change in European Fund II Fee Base	(272,659)
Change in Value	(4,197,322)
December 31, 2008 FPAUM	$ 43,411,800

FPAUM was $43.4 billion as of December 31, 2008, an increase of $3.5 billion, or 8.8%, from December 31, 2007. The increase was due primarily to capital commitments from the formation of our European Fund III, which received $6.1 billion of fee paying capital commitments from fund investors during 2008, as well as $2.6 billion associated with capital managed on behalf of third party investors in our Public Markets segment. This increase was partially offset by $1.7 billion of net unrealized losses resulting primarily from changes in the NAV of KPE due to changes in the market value of our underlying private equity portfolio companies, a $2.4 billion decrease resulting from changes in the market value of our fixed income investment vehicles, distributions of $0.8 billion primarily representing the reduction of fee paying invested capital associated with realization activity in our private equity funds, and a $0.3 billion reduction in our fee base due to the European Fund II moving from its investment period to its post-investment period. FPAUM is based on committed capital during the investment period, which for the European Fund II amounted to $5,750.8 million. During the post-investment period, FPAUM is based on invested capital. Due to realizations during the investment period, which reduced invested capital by $272.7 million, FPAUM decreased by the same amount once this fund entered the post-investment period. For additional discussion of our funds and other investment vehicles, please see "Business."

Segment Analysis

The following is a discussion of the results of our three reportable business segments for the years ended December 31, 2007, 2008 and 2009. You should read this discussion in conjunction with the information included under " Basis of Financial Presentation Segment Results" and the consolidated and combined financial statements and related notes included elsewhere in this document.

Table of Contents

Private Markets Segment

The following tables set forth information regarding the results of operations and certain key operating metrics for our Private Markets segment for the years ended December 31, 2007, 2008 and 2009.

	Year Ended December 31,		
	2007	2008	2009
Fees			
Management and Incentive Fees:			
Management Fees	$ 258,325	$ 396,394	$ 415,207
Incentive Fees			
Total Management and Incentive Fees	258,325	396,394	415,207
Net Monitoring and Transaction Fees:			
Monitoring Fees	70,370	97,256	158,243
Transaction Fees	683,100	23,096	57,699
Total Fee Credits	(230,640)	(12,698)	(73,900)
Net Transaction and Monitoring Fees	522,830	107,654	142,042
Total Fees	781,155	504,048	557,249
Expenses			
Employee Compensation and Benefits	177,957	135,204	147,801
Other Operating Expenses	186,811	212,692	169,357
Total Expenses	364,768	347,896	317,158
Fee Related Earnings	416,387	156,152	240,091
Investment Income			
Gross Carried interest	305,656	(1,197,387)	826,193
Less: Allocation to KKR carry pool	(18,176)	8,156	(57,971)
Less: Management fee refunds	(26,798)	29,611	(22,720)
Net carried interest	260,682	(1,159,620)	745,502
Other investment income (loss)	97,945	(230,053)	128,528
Total Investment Income	358,627	(1,389,673)	874,030

Income (Loss) before Income (Loss) Attributable to Noncontrolling Interests		775,014		(1,233,521)		1,114,121
Income (Loss) Attributable to Noncontrolling Interests						497
Economic Net Income	$	775,014	$	(1,233,521)	$	1,113,624
Assets Under Management (period end)	$	42,234,800	$	35,283,700	$	38,842,900
Fee paying assets under management (period end)	$	35,881,268	$	39,244,700	$	36,484,400
Committed Dollars Invested	$	14,854,200	$	3,168,800	$	2,107,700
Uncalled Commitments (period end)	$	11,530,417	$	14,930,142	$	13,728,100

Table of Contents

Year ended December 31, 2009 Compared to Year ended December 31, 2008

Fees

Fees in our Private Markets segment were $557.2 million for the year ended December 31, 2009, an increase of $53.2 million, or 10.6%, from the year ended December 31, 2008. The increase was primarily due to a $34.4 million increase in net transaction and monitoring fees. Transaction fees are negotiated separately for each completed transaction based on the services that we provide and will also vary depending on the nature of the investment being made. The increase in net transaction and monitoring fees was primarily the result of (i) an increase in gross transaction fees of $34.6 million reflecting an increase in transaction-fee generating private equity investments during the period (we completed twelve transaction-fee generating transactions in 2009 compared to four transaction-fee generating transactions in 2008); (ii) an increase in gross monitoring fees of $61.0 million reflecting the net impact of an increase of $72.2 million relating to fees received for the termination of monitoring fee contracts in connection with public equity offerings of two of our portfolio companies and a net $11.2 million decrease in fees received from certain portfolio companies due primarily to a decline in the number of portfolio companies paying a monitoring fee and a lower average fee received; and (iii) an increase in credits earned by limited partners under fee sharing arrangements in our private equity funds of $61.2 million due to the increase in transaction and monitoring fees. During the year ended December 31, 2009, excluding one-time fees received from the termination of monitoring fee contracts, we had 30 portfolio companies that were paying an average monitoring fee of $2.9 million, compared with 33 portfolio companies that were paying an average fee of $3.0 million during the year ended December 31, 2008. In addition there was an $18.8 million increase in management fees which was primarily the result of a full year of fees associated with the European III fund which began earning fees in the second quarter of 2008.

Expenses

Expenses were $317.2 million for the year ended December 31, 2009, a decrease of $30.7 million, or 8.8%, from the year ended December 31, 2008. The decrease was primarily due to the net impact of the following: (i) a decrease in transaction related expenses of $14.0 million attributable to unconsummated transactions during the period, from $28.2 million to $14.2 million for the years ended December 31, 2008 and 2009, respectively; (ii) decreases in operating expenses of $36.4 million (excluding the non-recurring charge described below) primarily as a result of a reduction in professional and other service provider fees due to our efforts to actively manage our expense base in a deteriorating economic environment; (iii) an increase in occupancy costs of $7.1 million reflecting the opening of new offices subsequent to December 31, 2008 as well as an increase in existing office space; and (iv) an increase in employee compensation and benefits expense of $12.6 million resulting from an increase in salaries reflecting the hiring of additional personnel in connection with the expansion of our business as well as an increase in incentive compensation in connection with higher bonuses in 2009 reflecting improved overall financial performance of our private markets management company when compared to the prior period. Our Private Markets expenses exclude a $34.8 million charge incurred in connection with the Transactions. Management has excluded this charge from our segment financial information as such amount will be not be considered when assessing the performance of or allocating resources to, each of our business segments, and is non-recurring in nature. On a consolidated basis, this charge is included in general, administrative and other expenses.

Fee Related Earnings

Due primarily to the increase in fees described above, fee related earnings in our Private Markets segment were $240.1 million for the year ended December 31, 2009, an increase of $83.9 million, or 53.7%, from the year ended December 31, 2008.

Table of Contents

Investment Income (Loss)

Investment income is composed of net carried interest and other investment income (loss). Carried interests entitle the general partner of our private equity funds to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduces third party investors' share of those earnings. Carried interests are earned on realized and unrealized gains (losses) on fund investments as well as dividends received by our funds. Amounts earned pursuant to carried interests are included in investment income to the extent that cumulative investment returns in a given fund are positive. If these investment returns decrease or turn negative in subsequent periods, recognized carried interests will be reduced and reflected as investment losses. Gross carried interest is reduced for carry pool allocations and refunds of management fees payable upon the recognition of carried interest. Other investment income (loss) is comprised of realized and unrealized gains (losses) and dividends on capital invested by the general partners of our funds, interest income and interest expense. Investment income was $874.0 million for the year ended December 31, 2009, an increase of $2.3 billion compared to investment losses of $1.4 billion for the year ended December 31, 2008. For the year ended December 31, 2009, investment income (loss) was comprised of (i) net carried interest of $745.5 million and (ii) other investment income (loss) of $128.5 million, which includes net gains from investment activities of $106.4 million, dividends of $23.7 million and net interest expense of $1.6 million. The following table presents the components of net carried interest for the years ended December 31, 2009 and 2008.

	Year Ended December 31,	
	2009	**2008**
Net Realized Gains (Losses)	(44,136)	67,709
Net Unrealized Gains (Losses)	835,028	(1,279,358)
Dividends and Interest	35,301	14,262
Gross carried interest	$ 826,193	$ (1,197,387)
Less: Allocation to KKR carry pool	(57,971)	8,156
Less: Management fee refunds	(22,720)	29,611
Net carried interest	$ 745,502	$ (1,159,620)

Allocations to our carry pool represent 40% of carried interest earned in funds and vehicles eligible to receive carry distributions to be allocated to our principals plus any allocation of carried interest to our other employees as part of our profit sharing plan. No carry pool allocations are recorded in funds and vehicles that are in either a clawback position or a net loss sharing position and therefore carry pool allocations may not always equal 40% of gross carried interest. Prior to October 1, 2009, allocations to our carry pool consisted only of allocations to our employee profit sharing plan. The amount of carried interest earned during the fourth quarter of fiscal year 2009 for those funds and vehicles eligible to receive carried interest amounted to $92,253 of which the carry pool will be allocated 40% and the remaining 60% allocated to KKR Group Holdings and KKR Holdings based on their respective ownership percentages. The increase in investment income of $2.3 billion from the year ended December 31, 2008 is primarily due to an increase in net unrealized gains of $2.4 billion resulting primarily from increases in the market value of our private equity portfolio. Offsetting this increase was realization activity that represented a net loss during the year ended December 31, 2009 of $39.1 million and a net gain during the year ended December 31, 2008 of $72.8 million which resulted in a net unfavorable variance in realization activity from the prior period of $111.9 million.

Economic Net Income (Loss)

Economic net income in our Private Markets segment was $1.1 billion for the year ended December 31, 2009, an increase of $2.3 billion compared to economic net loss of $1.2 billion for the

Table of Contents

year ended December 31, 2008. The increased investment income described above was the main contributor to the period over period increase in economic net income.

Assets Under Management

The following table reflects the changes in our Private Markets assets under management from December 31, 2008 to December 31, 2009:

December 31, 2008 AUM	$	35,283,700
Exclusion of KPE(a)		(3,514,400)
New Capital Raised		683,300
Distributions		(808,600)
Change in Value		7,198,900
December 31, 2009 AUM	$	38,842,900

(a) The assets under management reported prior to the Transactions reflected the NAV of KPE and its commitments to our funds. Subsequent to the Transactions, the NAV of KPE and its commitments to our funds are excluded from our calculation of assets under management, because these assets are now owned by us and no longer managed on behalf of a third-party investor.

AUM in our Private Markets segment was $38.8 billion at December 31, 2009, an increase of $3.5 billion, or 9.9%, compared to $35.3 billion at December 31, 2008. The increase was primarily attributable to $7.2 billion of net unrealized gains resulting from changes in the market values of our portfolio companies, as well as $0.7 billion in new capital raised in our European III Fund, E2 Investors and separately managed accounts. The net unrealized investment gains were driven by net unrealized gains of $2.7 billion, $1.7 billion, $0.8 billion, $0.8 billion and $0.4 billion in our 2006 Fund, Millennium Fund, European Fund II, European Fund and Asian Fund, respectively, with all other funds also recording net realized gains during the period. Increased valuations in many of our portfolio companies, in the aggregate, which were primarily related to both improvements in market comparables and individual company performance, coupled with an overall improvement in global markets, were the main contributors to the unrealized investment gains. This increase was partially offset by distributions from our funds totaling $0.8 billion comprised of $0.5 billion of realized gains and $0.3 billion of return of original cost. In addition, the change in AUM included a $3.5 billion reduction representing the exclusion of the NAV of KPE and its commitments to our investment funds.

Fee Paying Assets Under Management

The following table reflects the changes in our Private Markets fee paying assets under management from December 31, 2008 to December 31, 2009:

December 31, 2008 FPAUM	$	39,244,800
Exclusion of KPE(a)		(3,175,900)
New Capital Raised		609,000
European Fund III/E2 Investors		(571,600)
Distributions		(325,058)
Change in Value		703,158
December 31, 2009 FPAUM	$	36,484,400

(a) The fee paying assets under management reported prior to the Transactions reflected the NAV of KPE. Subsequent to the Transactions, the NAV of KPE is excluded from our

Table of Contents

calculation of fee paying assets under management, because these assets are now owned by us and are no longer managed on behalf of a third-party investor.

FPAUM in our Private Markets segment was $36.5 billion at December 31, 2009, a $2.7 billion decrease, or 6.9%, compared to $39.2 billion at December 31, 2008. The decrease was primarily attributable to a $3.2 billion reduction representing the exclusion of the NAV of KPE and its commitments to our investment funds. In addition, the decrease was attributable to distributions of $0.3 billion primarily representing the reduction of capital associated with realization activity and $0.6 billion related to capital that was transferred from a fee paying private equity fund (European Fund III) to a non-fee paying private equity fund (E2 Investors). These decreases were partially offset by new capital raised of $0.6 billion in our European III Fund and separately managed accounts and $0.7 billion of foreign exchange adjustments on foreign denominated committed and invested capital. For additional discussion of our private equity funds and private equity fund vehicles, please see "Business."

Committed Dollars Invested

Committed dollars invested were $2.1 billion for the year ended December 31, 2009, a decrease of $1.1 billion, or 33.5%, from the year ended December 31, 2008. The decrease was due primarily to a decrease in both the size and transaction volume of private equity investments closed during 2009 as compared with 2008.

Uncalled Commitments

As of December 31, 2009, our private equity funds had $13.7 billion of remaining uncalled capital commitments that could be called to make investments.

Year ended December 31, 2008 Compared to Year ended December 31, 2007

Fees

Fees in our Private Markets segment were $504.0 million for the year ended December 31, 2008, a decrease of $277.1 million, or 35.5%, from the year ended December 31, 2007. The decrease was primarily due to a decrease in gross transaction fees earned in our Private Markets segment of $660.0 million reflecting a decrease in transaction-fee generating private equity investments during the period. We completed four transaction-fee generating transactions in 2008 compared to thirteen transaction-fee generating transactions in 2007. Transaction fees are negotiated separately for each completed transaction based on the services that we provide and will also vary depending on the nature of the investment being made. Offsetting this decrease was an increase in management fees relating to our private equity funds of $138.1 million. The increase was primarily due to an increase of $100.6 million relating to the formation of the European III fund which began earning fees in the second quarter of 2008 as well as a full year of fees in 2008 relating to the Asian Fund formed in mid-2007. Gross monitoring fees increased $26.9 million in our Private Markets segment primarily reflecting an increase in the average monitoring fee received. During the year ended December 31, 2008, we had 33 portfolio companies that were paying an average fee of $3.0 million, compared with 40 portfolio companies that were paying an average fee of $1.7 million during the year ended December 31, 2007. In addition, a $217.9 increase was related to a decrease in fee credits earned by limited partners under fee sharing arrangements in our private equity funds primarily as a result of reduced transaction fees partially offset by the increase in monitoring fees.

Expenses

Expenses in our Private Markets segment were $347.9 million for the year ended December 31, 2008, a decrease of $16.9 million, or 4.6%, from the year ended December 31, 2007. The decrease was

Table of Contents

primarily due to a $42.8 million decrease in employee compensation and benefits resulting from a decrease in incentive compensation in connection with lower bonuses in 2008 reflecting the lower income of our private markets management company when compared to the prior period, offset by increases relating to the hiring of additional personnel after December 31, 2007 in connection with the expansion of our business. Offsetting this decrease is the net impact of the following: (i) an increase in other operating expenses of $29.1 million primarily as a result of an increase in expenses in connection with the overall growth of our existing businesses; (ii) an increase in occupancy charges of $9.3 million reflecting the opening of new offices in Beijing, Sydney, Houston and Washington, D.C. subsequent to December 31, 2007 as well as an increase in existing office space and (iii) a decrease in transaction related expenses of $12.5 million attributable to unconsummated transactions, from $40.7 million to $28.2 million for the years ended December 31, 2007 and 2008, respectively, reflecting a slowdown in the overall level of investment activity during the period.

Fee Related Earnings

Fee related earnings in our Private Markets segment were $156.2 million for the year ended December 31, 2008, a decrease of $260.2 million, or 62.5%, from the year ended December 31, 2007. The significant decrease in fees, as described above, was the main contributor to the year over year decrease in fee related earnings.

Investment Income (Loss)

Investment income is comprised of net carried interest and other investment income (loss). Carried interests entitle the general partner of our funds to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduces third party investors share of those earnings. Carried interests are earned on realized and unrealized gains (losses) on fund investments as well as dividends received by our funds. Amounts earned pursuant to carried interests are included in investment income to the extent that cumulative investment returns in a given fund are positive. If these investment returns decrease or turn negative in subsequent periods, recognized carried interests will be reduced and reflected as investment losses. Gross carried interest is reduced for carry pool allocations and refunds of management fees payable upon the recognition of carried interest. Other investment income (loss) is comprised of realized and unrealized gains (losses) and dividends on capital invested by the general partners of our funds, interest income and interest expense. Investment losses were $1.4 billion for the year ended December 31, 2008, a decrease of $1.8 billion compared to investment income of $358.6 million for the year ended December 31, 2007. Investment income was comprised of net losses from investment activities of $1.4 billion, dividends of $18.7 million and net interest expense of $1.8 million. The overall decrease in net gains from investment activities compared to the prior period was primarily attributable to a net decrease in changes in unrealized gains (losses) of $1.4 billion resulting primarily from net decreases in the market value of our investment portfolio and to a lesser extent a decline in net realized gains of $279.1 million resulting primarily from a lower level of sales activity during the period. Dividends decreased $144.0 million as a result of fewer dividends as well as a lower average dividend received during 2008 while net interest expense increased $16.3 million primarily as a result of increased borrowings as well as the amortization of deferred financing costs incurred in connection with credit agreements entered into in early 2008 at our management company and capital markets business. Carried interest represented $(1.2) billion of total investment losses for the year ended December 31,

Table of Contents

2008 and $0.3 billion of total investment income for the year ended December 31, 2007. The following table presents the components of net carried interest for the years ended December 31, 2008 and 2007.

	Year Ended December 31,	
	2008	2007
Net Realized Gains (Losses)	67,709	250,249
Net Unrealized Gains (Losses)	(1,279,358)	(82,687)
Dividends and Interest	14,262	138,094
Gross carried interest	$ (1,197,387)	$ 305,656
Less: Allocation to KKR carry pool	8,156	(18,176)
Less: Management fee refunds	29,611	(26,798)
Net carried interest	$ (1,159,620)	$ 260,682

Economic Net Income (Loss)

Economic net loss in our Private Markets segment was $1.2 billion for the year ended December 31, 2008, a decrease of $2.0 billion compared to economic net income of $0.8 billion for the year ended December 31, 2007. The investment losses described above were the main contributors to the period over period decrease in economic net income.

Assets Under Management

The following table reflects the changes in our Private Markets assets under management from December 31, 2007 to December 31, 2008:

December 31, 2007 AUM	$ 42,234,800
New Capital Raised	6,441,000
Distributions	(605,531)
Change in Value	(12,786,569)
December 31, 2008 AUM	$ 35,283,700

AUM in our Private Markets segment were $35.3 billion as of December 31, 2008, a decrease of $6.9 billion, or 16.4%, from December 31, 2007. The decrease was due primarily to $12.8 billion of net unrealized losses resulting from changes in the market values of our portfolio companies in our Private Markets segment and $0.6 billion of distributions from our traditional private equity funds comprised of $0.5 billion of realized gains and $0.1 billion of original cost. The net unrealized losses were driven by net unrealized losses of $3.4 billion, $3.0 billion, $2.6 billion and $1.0 billion in our 2006 Fund, European Fund II, Millennium Fund and European Fund, respectively, and $1.6 billion in KPE. All other funds also recorded net unrealized losses during the period. Decreased valuations in many of our portfolio companies, in the aggregate, which were impacted by decreases in market comparables and individual company performance, coupled with global economies that were in recession, were the main contributors to the unrealized investment losses. Offsetting these decreases were increases associated with the formation of our European Fund III, which received $6.4 billion of capital commitments from fund investors during the year ended December 31, 2008.

Table of Contents

Fee Paying Assets Under Management

The following table reflects the changes in our Private Markets fee paying assets under management from December 31, 2007 to December 31, 2008:

December 31, 2007 FPAUM	$	35,881,268
New Capital Raised		6,141,000
Distributions		(755,387)
Change in European Fund II Fee Base		(272,659)
Change in Value		(1,749,422)
December 31, 2008 FPAUM	$	39,244,800

FPAUM in our Private Markets segment was $39.2 billion at December 31, 2008, an increase of $3.3 billion, or 9.2%, compared to $35.9 billion at December 31, 2007. This increase was due primarily to capital commitments from the formation of our European Fund III, which received $6.1 billion of fee paying capital commitments from fund investors during 2008. This increase was partially offset by $1.7 billion of net unrealized losses resulting primarily from changes in the NAV of KPE due to changes in the market value of its underlying private equity portfolio companies, distributions of $0.8 billion primarily representing the reduction of fee paying invested capital associated with realization activity, as well as $0.3 billion reduction in fee base due to the European Fund II moving from its investment period to its post-investment period. FPAUM is based on committed capital during the investment period, which for the European Fund II amounted to $5,750.8 million. During the post-investment period, FPAUM is based on invested capital. Due to realizations during the investment period, which reduced invested capital by $272.7 million, FPAUM decreased by the same amount once this fund entered the post-investment period. For additional discussion of our private equity funds and private equity fund vehicles, please see "Business."

Committed Dollars Invested

Committed dollars invested were $3.2 billion for the year ended December 31, 2008, a decrease of $11.7 billion, or 78.7%, from the year ended December 31, 2007. The decrease was due primarily to a decrease in the number of private equity transactions closed during the year ended December 31, 2008.

Uncalled Commitments

As of December 31, 2008, our private equity funds had $14.9 billion of remaining unused capital commitments that could be called for investment in new private equity transactions.

Table of Contents

Public Markets Segment

The following tables set forth information regarding the results of operations and certain key operating metrics for our Public Markets segment for the years ended December 31, 2007, 2008 and 2009.

	Year Ended December 31,		
	2007	**2008**	**2009**
Fees			
Management and Incentive Fees:			
Management Fees	$ 53,183	$ 59,342	$ 50,754
Incentive Fees	23,335		4,472
Total Management and Incentive Fees	76,518	59,342	55,226
Expenses			
Employee Compensation and Benefits	23,518	20,566	24,086
Other Operating Expenses	4,928	6,200	20,586
Total Expenses	28,446	26,766	44,672
Fee Related Earnings	48,072	32,576	10,554
Investment Income (Loss)	15,006	10,687	(5,260)
Income (Loss) before Income (Loss) Attributable to Noncontrolling Interests	63,078	43,263	5,294
Income (Loss) Attributable to Noncontrolling Interests	23,264	6,421	15
Economic Net Income	$ 39,814	$ 36,842	$ 5,279
Assets Under Management (period end)	$ 10,980,900	$ 13,167,000	$ 13,361,300
Fee paying assets under management (period end)	$ 3,980,900	$ 4,167,000	$ 6,295,400
Uncalled Commitments (period end)	$	$	$ 816,327

Year ended December 31, 2009 Compared to Year ended December 31, 2008

Fees

Our Public Markets segment earned fees of $55.2 million for the year ended December 31, 2009, a decrease of $4.1 million, or 6.9%, from the year ended December 31, 2008. The decrease is primarily the result of a $15.2 million decrease in management fees received from the Strategic Capital Funds. The reduction in management fees from the Strategic Capital Funds was partially due to a lower average net asset value during the year ended December 31, 2009 which resulted in a reduction of fees of $7.5 million. Additionally, effective December 1, 2008, the fees for all investor classes of the Strategic Capital Funds were reduced, which resulted in a further reduction of fees of $7.7 million. Management fees were reduced for all investor classes within the Strategic Capital Funds in conjunction with the mandatory redemption and restructuring of the funds, which was effective December 1, 2008.

In addition to the reduced fees from the Strategic Capital Funds, there was a $10.2 million decrease in fees received from KFN due primarily to a lower average equity value during the year ended December 31, 2009, offset by an incentive fee received in 2009. These decreases were offset by a $7.3 million increase in management fees resulting from an increase in capital managed on behalf of third party investors and an increase in management fees from structured finance vehicles totaling $14.0 million. Beginning in 2009 we elected to temporarily receive management fees from structured finance vehicles in lieu of being reimbursed $13.0 million of expenses by KFN and the Strategic Capital

Table of Contents

Funds, thereby providing incremental cash flow, which otherwise would have been unavailable, to the investors in these entities. The election to receive management fees in lieu of expense reimbursements had an insignificant cash flow impact on us.

Expenses

Expenses in our Public Markets segment were $44.7 million for the year ended December 31, 2009, an increase of $17.9 million, or 66.9% from the year ended December 31, 2008. The increase was primarily attributable to our waiving of $13.0 million of expense reimbursements during 2009 from KFN and the Strategic Capital Funds, as noted above. Additionally, employee compensation and benefits expense increased by $3.5 million, which was primarily due to increased headcount.

Investment Income (Loss)

Our Public Markets segment had an investment loss of $5.3 million for the year ended December 31, 2009, a decrease of $15.9 million, or 149.2%, from the year ended December 31, 2008. This decrease was primarily driven by an increase in non-cash stock based compensation expense associated with equity grants received from KFN. Our stock based commitments to employees are tied to the stock price of KFN, and a rising stock price of KFN increases our liability to employees. The stock price of KFN appreciated in 2009 from a price of $1.58 at December 31, 2008 to a price of $5.80 at December 31, 2009.

Fee Related Earnings

Due primarily to the increase in expenses described above, fee related earnings in our Public Markets segment were $10.6 million for the year ended December 31, 2009, a decrease of $22.0 million compared to fee related earnings of $32.6 million for the year ended December 31, 2008.

Economic Net Income

Economic net income in our Public Markets segment was $5.3 million for the year ended December 31, 2009, a decrease of $31.6 million compared to economic net income of $36.8 million for the year ended December 31, 2008. The decrease in fee related earnings described above was the main contributor to the period over period decrease in economic net income.

Assets Under Management

The following table reflects the changes in our Public Markets assets under management from December 31, 2008 to December 31, 2009:

December 31, 2008 AUM	$	13,167,000
Exclusion of KPE(a)		(62,600)
New Capital Raised		1,416,300
Distributions		(2,000,000)
Investor Redemptions		(634,700)
Change in Value		1,475,300
December 31, 2009 AUM	$	13,361,300

(a) The assets under management reported prior to the Transactions reflected the NAV of KPE and its commitments to our funds. Subsequent to the Transactions, the NAV of KPE and its commitments to our funds are excluded from our calculation of assets under management, because those items are now owned by us and no longer managed on behalf of a third-party investor.

Table of Contents

AUM in our Public Markets segment was $13.4 billion at December 31, 2009, an increase of $0.2 billion, or 1.5%, compared to $13.2 billion at December 31, 2008. The increase was driven by $1.5 billion of net unrealized gains resulting from improvement in the overall credit markets. Our portfolios for KFN (including its majority-owned subsidiaries), the Strategic Capital Funds, and our separately managed accounts primarily consisted of corporate debt, including leveraged loans and high yield bonds, with both asset classes experiencing material price appreciation in the fiscal year ended December 31, 2009.

In addition to the unrealized appreciation on the portfolios noted above, we raised $1.4 billion in new capital for our separately managed accounts. Offsetting these increases was the restructuring and distribution of one of our structured finance vehicles, which decreased our AUM by $2.0 billion. We restructured and distributed this structured finance vehicle in 2009 as we believed the underlying collateral maintenance requirements and financing terms of this structured finance vehicle were no longer attractive. Further offsetting the increases to our AUM were redemptions of $0.6 billion from our Strategic Capital Funds.

Fee Paying Assets Under Management

The following table reflects the changes in our Public Markets fee paying assets under management from December 31, 2008 to December 31, 2009:

December 31, 2008 FPAUM	$	4,167,000
Exclusion of KPE(a)		(62,600)
New Capital Raised		1,400,000
Distributions		
Investor Redemptions		(634,700)
Change in Value		1,425,700
December 31, 2009 FPAUM	$	6,295,400

(a) The fee paying assets under management reported prior to the Transactions reflected the NAV of KPE. Subsequent to the Transactions, the NAV of KPE is excluded from our calculation of fee paying assets under management, because those items are now owned by us and are no longer managed on behalf of a third-party investor.

FPAUM in our Public Market segment was $6.3 billion at December 31, 2009, an increase of $2.1 billion, or 50.0%, compared to $4.2 billion at December 31, 2008. This increase was driven primarily by $1.4 billion of net unrealized gains resulting from improvements in the overall credit markets. Our portfolios for KFN (including its majority-owned subsidiaries), the Strategic Capital Funds, and our separately managed accounts primarily consisted of corporate debt, including leveraged loans and high yield bonds, with both asset classes experiencing material price appreciation in the fiscal year ended December 31, 2009.

In addition to the unrealized appreciation on the portfolios noted above, we raised $1.4 billion in new capital for our separately managed accounts. Offsetting the increases to our FPAUM were redemptions of $0.6 billion from our Strategic Capital Funds. For additional discussion of our investment funds, structured finance vehicles, and separately managed accounts, please see "Business."

Uncalled Commitments

As of December 31, 2009, our Public Markets segment had $816.3 million of remaining uncalled capital commitments that could be called to make investments.

Table of Contents

Year ended December 31, 2008 Compared to Year ended December 31, 2007

Fees

Our Public Markets segment earned fees of $59.3 million for the year ended December 31, 2008, a decrease of $17.2 million, or 22.4%, from the year ended December 31, 2007. This decrease was primarily due to the absence of incentive fees from KFN and the Strategic Capital Funds in 2008 due to unfavorable financial performance resulting from the deteriorating economic environment, the corresponding historic asset price declines and the lack of liquidity in the credit and securities markets. The portfolios of KFN (including its majority-owned subsidiaries) and the Strategic Capital Funds primarily consist of leveraged loans and high yield bonds, which saw material price deterioration in the year ended December 31, 2008. For the year ended December 31, 2007, our Public Markets segment earned incentive fees from KFN and the Strategic Capital Funds of $17.5 million and $5.8 million, respectively. This decrease was partially offset by an increase of $4.5 million in management fees from incremental capital managed on behalf of third party investors.

Expenses

Expenses in our Public Markets segment were $26.8 million for the year ended December 31, 2008, a decrease of $1.7 million, or 5.9%, from the year ended December 31, 2007. This decrease was driven by a decrease in employee compensation and benefits expense of $3.0 million as a result of lower incentive compensation driven by lower bonuses in 2008 reflecting less favorable overall financial performance of our public markets management company when compared to the prior period.

Investment Income (Loss)

Our Public Markets segment had investment income of $10.7 million for the year ended December 31, 2008, a decrease of $4.3 million, or 28.8%, from the year ended December 31, 2007. This decrease was primarily driven by a decrease in non-cash stock based management fees associated with equity grants received from KFN.

Fee Related Earnings

Fee related earnings in our Public Markets segment were $32.6 million for the year ended December 31, 2008, a decrease of $15.5 million, or 32.2%, from the year ended December 31, 2007. The decrease in fees, as described above, was the main contributor to the year over year decrease in fee related earnings.

Noncontrolling Interests in Income of Consolidated Entities

Noncontrolling interests in income of consolidated entities were $6.4 million for the year ended December 31, 2008, a decrease of $16.8 million, or 72.4%, from the year ended December 31, 2007. The decrease reflects a lower level of fee related earnings in the current period as well as the purchase of the noncontrolling interests in the manager of our Public Markets segment on May 30, 2008.

Economic Net Income

Due primarily to the reduction in fees described above, offset by the purchase of noncontrolling interests in the manager of our Public Markets segment on May 30, 2008, economic net income for our Public Markets segment was $36.8 million for the year ended December 31, 2008, a decrease of $3.0 million, or 7.5%, from the year ended December 31, 2007.

Table of Contents

Assets Under Management

The following table reflects the changes in our Public Markets assets under management from December 31, 2007 to December 31, 2008:

December 31, 2007 AUM	$	10,980,900
New Capital Raised		4,634,000
Distributions		
Change in Value		(2,447,900)
December 31, 2008 AUM	$	13,167,000

AUM in our Public Markets segment was $13.2 billion as of December 31, 2008, an increase of $2.2 billion, or 20.0% from December 31, 2007. The increase was primarily due to $4.6 billion of newly raised capital in our separately managed accounts and structured finance vehicles. Offsetting the increase in AUM were unrealized losses of $2.4 billion in the portfolios for KFN (including its majority-owned subsidiaries), the Strategic Capital Funds, and our separately managed accounts. Our managed entities held investments in corporate debt investments, including leveraged loans and high yield bonds, which experienced material price deterioration in the fiscal year ended December 31, 2008.

Fee Paying Assets Under Management

The following table reflects the changes in our Public Markets fee paying assets under management from December 31, 2007 to December 31, 2008:

December 31, 2007 FPAUM	$	3,980,900
New Capital Raised		2,634,000
Distributions		
Change in Value		(2,447,900)
December 31, 2008 FPAUM	$	4,167,000

FPAUM in our Public Markets segment was $4.2 billion as of December 31, 2008, an increase of $0.2 billion, or 5.0% from December 31, 2007. The increase was primarily due to $2.6 billion of newly raised capital in our separately managed accounts. Offsetting the increase in FPAUM were unrealized losses of $2.4 billion in the portfolios for KFN (including its majority-owned subsidiaries), the Strategic Capital Funds, and our separately managed accounts. Our managed entities held investments in corporate debt investments, including leveraged loans and high yield bonds, which experienced material price deterioration in the fiscal year ended December 31, 2008. For additional discussion of our investment funds, structured finance vehicles, and separately managed accounts, please see "Business."

Capital Markets and Principal Activities Segment

The following table sets forth information regarding the results of operations and certain key operating metrics for our Capital Markets and Principal Activities segment for the years ended December 31, 2008 and 2009. The Capital Markets and Principal Activities segment was formed upon completion of the Transactions by combining our capital markets business with the assets and liabilities

Table of Contents

of KPE. As a result, we have reclassified the results of our capital markets business since inception into this segment.

	Year Ended December 31,	
	2008	2009
Fees		
Management and Incentive Fees:		
Management Fees	$	$
Incentive Fees		
Total Management and Incentive Fees		
Net Monitoring and Transaction Fees:		
Monitoring Fees		
Transaction Fees	18,211	34,129
Total Fee Credits		
Net Transaction and Monitoring Fees	18,211	34,129
Total Fees	18,211	34,129
Expenses		
Employee Compensation and Benefits	7,094	9,455
Other Operating Expenses	5,820	6,021
Total Expenses	12,914	15,476
Fee Related Earnings	5,297	18,653
Investment Income		
Gross Carried interest		
Less: Allocation to KKR carry pool		
Less: Management fee refunds		
Net carried interest		
Other investment income (loss)	(4,129)	349,679
Total Investment Income	(4,129)	349,679
Income (Loss) before Income (Loss) Attributable to Noncontrolling Interests	1,168	368,332
Income (Loss) Attributable to Noncontrolling Interests	(37)	581

Economic Net Income	$ 1,205	$ 367,751

Year ended December 31, 2009 Compared to Year ended December 31, 2008

Fees

Fees in our Capital Markets and Principal Activities segment were $34.1 million for the year ended December 31, 2009, an increase of $15.9 million, or 87.4%, from the year ended December 31, 2008. The increase was due to an increase in the number of capital markets transactions during the period. We completed 11 capital markets transactions in 2009, as compared to 9 transactions in 2008. These transactions generated $34.1 million of underwriting, syndication and other capital markets services fees in 2009, compared to $18.2 million in 2008. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting the offerings of equity securities than with respect to the issuance of debt securities, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes.

Table of Contents

Expenses

Expenses were $15.5 million for the year ended December 31, 2009, an increase of $2.6 million, or 19.8%, from the year ended December 31, 2008. Substantially all of the increase was comprised of an increase in employee compensation and benefits expense resulting from an increase in salaries and bonuses in 2009 in connection with increased revenues when compared to the prior period and, to a lesser extent, an increase in headcount.

Fee Related Earnings

Due primarily to the increases in fees as mentioned above, fee related earnings in our Capital Markets and Principal Activities segment were $18.7 million for the year ended December 31, 2009, an increase of $13.4 million, as compared to fee related earnings of $5.3 during the year ended December 31, 2008.

Investment Income (Loss)

Investment income was $349.7 million for the year ended December 31, 2009, an increase of $353.8 million as compared to investment loss of $4.1 million for the year ended December 31, 2008. The 2009 amounts primarily reflect income earned on our principal assets acquired from KPE and were comprised of $24.5 million of net realized gains, $333.6 million of net unrealized gains, $0.5 million of dividend income and $8.9 million of net interest expense. Net realized gains were comprised of $14.1 million from the partial sale of certain private equity co-investments, $7.9 million from the partial sale of certain private equity fund investments and $2.5 million from the sale of other investments. The net unrealized gains were comprised of $196.0 million of net unrealized appreciation of private equity co-investments, $98.1 million of net appreciation of private equity fund investments and $39.5 million of net appreciation of other investments. The 2008 amounts primarily reflect interest expense at our capital markets business.

Economic Net Income (Loss)

Economic net income in our Capital Markets and Principal Activities segment was $367.8 million for the year ended December 31, 2009 as compared to $1.2 million for the year ended December 31, 2008. The increase in fee related earnings as described above was the main contributor to the increase in economic net income.

Table of Contents

Segment Partners' Capital

The following table presents our segment statement of financial condition as of December 31, 2009:

	As of December 31, 2009			
	Private Markets Segment	Public Markets Segment	Capital Markets and Principal Activities Segment	Total Reportable Segments
Cash and cash equivalents	$ 51,015	$ 9,089	$ 496,554	$ 556,658
Investments			4,108,359	4,108,359
Unrealized Carry	156,149			156,149
Other Assets	154,964	53,319	55,219	263,502
Total Assets	$ 362,128	$ 62,408	$ 4,660,132	$ 5,084,668
Debt Obligations	$	$	$ 733,697	$ 733,697
Other Liabilities	84,936	12,300	85,802	183,038
Total Liabilities	$ 84,936	$ 12,300	$ 819,499	$ 916,735
Noncontrolling interests	$ 130	$ 527	$ 14,392	$ 15,049
Partners' Capital	$ 277,062	$ 49,581	$ 3,826,241	$ 4,152,884

The following table reconciles Total Reportable Segments Partners' Capital to total Group Holdings Partners' Capital:

	As of December 31, 2009
Total Reportable Segments Partners' Capital	4,152,884
Current and Deferred Income Taxes	(60,566)
Accumulated Amortization of Intangible Assets	(5,999)
Allocations to former principals	(110)
Total Consolidated Partners' Capital	4,086,209
Current and Deferred Income Taxes Allocable to Group Holdings	64,756
Non-cash equity based compensation allocable to KKR Holdings	(562,373)
Distributions to KKR Holdings	6,760
Total KKR Group Partnership Partners' Capital	3,595,352
KKR Guernsey's Interest in Our Combined Business	30%
Subtotal	1,078,605
Current and Deferred Income Taxes Allocable to Group Holdings	(64,756)
Total Group Holdings Partners' Capital	$ 1,013,849

Liquidity

We have managed our historical liquidity and capital requirements by focusing on our cash flows before the consolidation of our funds and the effect of normal changes in short term assets and liabilities, which we anticipate will be settled for cash within one year. Our primary cash flow activities on an unconsolidated basis involve: (i) generating cash flow from operations; (ii) generating income from investment activities; (iii) funding capital commitments that we have made to our funds; (iv) funding our growth initiatives; (v) distributing cash flow to our owners; and (vi) borrowings and repayments under credit agreements.

Table of Contents

Sources of Cash

Our principal sources of cash consist of cash and cash equivalents contributed to the KKR Group Partnerships as part of the Transactions and the net proceeds that we receive from this offering. Based on the price set forth on the cover page of this prospectus, we estimate that we will receive approximately $ of net proceeds from this offering after deducting estimated underwriting discounts and offering expenses, or $ if the underwriters exercise in full their option to purchase additional common units from us. We will also receive cash from time to time from: (i) our operating activities, including the fees earned from our funds, managed accounts, portfolio companies, capital markets transactions and other investment products; (ii) realizations on carried interest from our investment funds; (iii) realizations from principal investments; and (iv) borrowings under our credit facilities described below. We may also issue additional common units and other securities to investors with the objective of increasing our available capital.

Carried interest is distributed to the general partner of a vehicle with a clawback or net loss sharing provision only after all of the following are met: (i) a realization event has occurred (e.g. sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception; and (iii) all of the cost has been returned to investors with respect to investments with a fair value below remaining cost.

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

In February 2008, the management company for our private equity funds entered into a credit agreement with a major financial institution providing for revolving borrowings of up to $1.0 billion with a $50.0 million sublimit for swingline notes and a $25.0 million sublimit for letters of credit. This facility has a term of three years that expires in February 2011, which may be extended through February 2013 at our option. As of December 31, 2009, $25.0 million was outstanding under this facility and the interest rate on such borrowings was approximately 0.7% as of December 31, 2009. Subsequent to December 31, 2009, the outstanding principal and accrued interest as of December 31, 2009 were repaid.

In February 2008, the holding company for our capital markets business entered into a credit agreement with a major financial institution. The credit agreement provides for revolving borrowings of up to $500.0 million. This facility has a term of five years that expires in February 2013. As of December 31, 2009, there were no borrowings outstanding under this agreement. Borrowings under this facility may only be used for our capital markets business.

In June 2007, the KPE Investment Partnership entered into a five-year revolving credit agreement with a syndicate of lenders. The credit agreement provides for up to $925.0 million of senior secured credit, subject to availability under a borrowing base determined by the value of certain investments pledged as collateral security for obligations under the agreement. The borrowing base is subject to certain investment concentration limitations and the value of the investments constituting the borrowing base is subject to certain advance rates based on type of investment. As of December 31, 2009, the interest rates on borrowings under the credit agreement ranged from 1.0% to 1.5%. As of December 31, 2009, we had $708.7 million of borrowings outstanding. Subsequent to December 31, 2009, $404.1 million of revolving borrowings were repaid.

From time to time, we may borrow amounts to satisfy general short-term needs of our business by opening short-term lines of credit with established financial institutions. These amounts are generally repaid within 30 days, at which time such short-term lines of credit would close. There were no such borrowings as of December 31, 2009.

Table of Contents

Liquidity Needs

We expect that our primary liquidity needs will consist of cash required to: (i) continue to grow our business, including funding our capital commitments made to existing and future funds and any net capital requirements of our capital markets companies; (ii) service debt obligations, including any contingent liabilities that give rise to future cash payments; (iii) fund cash operating expenses; (iv) pay amounts that may become due under our tax receivable agreement with KKR Holdings; and (v) make cash distributions in accordance with our distribution policy. See "Distribution Policy." We may also require cash to fund contingent obligations under clawback and net-loss sharing arrangements. See " Liquidity Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis." We believe that the sources of liquidity described below will be sufficient to fund our working capital requirements for the next 12 months.

As described under "Business," the agreements governing our active investment funds generally require the general partners of the funds to make minimum capital commitments to the funds, which usually range from 2% to 4% of a fund's total capital commitments at final closing. In addition, as a result of the Transactions, we are now responsible for the uncalled commitments once attributable to the KPE Investment Partnership as a partner in our private equity funds. The following table presents our uncalled commitments to our active investment funds as of December 31, 2009:

	Uncalled Commitments		
	General Partner	Acquired from KPE	Total
Private Markets			
2006 Fund	$ 89,508	$ 371,243	$ 460,751
Asian Fund	59,659	170,023	229,682
European III Fund	259,076	270,184	529,260
E2 Investors (Annex Fund)	20,399	15,875	36,274
Total Private Markets Commitments	428,642	827,325	1,255,967
Public Markets			
Separately Managed Accounts	16,327		16,327
Total Uncalled Commitments	$ 444,969	$ 827,325	$ 1,272,294

Historically, we have funded commitments with cash from operations that otherwise would be distributed to our owners. We expect to fund future commitments with available cash, proceeds from realizations of principal assets and other sources of liquidity available to us.

We and our intermediate holding company, a taxable corporation for U.S. federal income tax purposes, may be required to acquire KKR Group Partnership Units from time to time pursuant to our exchange agreement with KKR Holdings. KKR Management Holdings L.P. intends to make an election under Section 754 of the Internal Revenue Code in effect for each taxable year in which an exchange of KKR Group Partnership Units for common units occurs, which may result in an increase in our intermediate holding company's share of the tax basis of the assets of the KKR Group Partnerships at the time of an exchange of KKR Group Partnership Units. Certain of these exchanges are expected to result in an increase in our intermediate holding company's share of the tax basis of the tangible and intangible assets of the KKR Group Partnerships, primarily attributable to a portion of the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization deductions for tax purposes and therefore reduce the amount of income tax our intermediate holding company would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

Table of Contents

We have entered into a tax receivable agreement with KKR Holdings requiring our intermediate holding company to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding company actually realizes as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding company actually realizes as a result of increases in tax basis that arise due to future payments under the agreement. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. This payment obligation is an obligation of our intermediate holding company and not of either KKR Group Partnership. As such, the cash distributions to common unitholders may vary from holders of KKR Group Partnership Units (held by KKR Holdings and others) to the extent payments are made under the tax receivable agreements to selling holders of KKR Group Partnership Units. As the payments reflect actual tax savings received by KKR entities, there may be a timing difference between the tax savings received by KKR entities and the cash payments to selling holders of KKR Group Partnership Units.

We expect our intermediate holding company to benefit from the remaining 15% of cash savings, if any, in income tax that it realizes. In the event that other of our current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, we expect that each will become subject to a tax receivable agreement with substantially similar terms. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement."

We intend to make quarterly cash distributions in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of our asset management business in excess of amounts determined by our Managing Partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our investment funds and to comply with applicable law and any of our debt instruments or other agreements. We do not intend to distribute gains on principal assets, other than potentially certain tax distributions to the extent that distributions for the relevant tax year were otherwise insufficient to cover tax liabilities of our partners, as calculated by us. See "Distribution Policy."

Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis

In the ordinary course of business, we enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of December 31, 2009 on an unconsolidated basis.

	Payments due by Period				
Types of Contractual Obligations	**<1 Year**	**1-3 Years**	**3-5 Years**	**>5 Years**	**Total**
			($ in millions)		
Uncalled commitments to investment funds(1)	$ 1,272.3	$	$	$	$ 1,272.3
Debt payment obligations(2)	350.0	733.7			1,083.7
Interest obligations on debt(3)	53.6	11.6			65.2
Lease obligations	30.4	52.6	47.9	93.9	224.8
Total	$ 1,706.3	$ 797.9	$ 47.9	$ 93.9	$ 2,646.0

(1) These uncalled commitments represent dollars committed by us to fund a portion of the purchase price paid for each investment made by our investment funds. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See " Liquidity Liquidity Needs."

Table of Contents

(2) Subsequent to December 31, 2009, the $350.0 million of obligations due within 1 year were repaid in connection with the settlement of an investment underlying these obligations and $429.1 million of other obligations were repaid.

(3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming no prepayments are made and the related debt is held until its final maturity date. Future interest rates have been calculated using rates in effect as of December 31, 2009, including both variable and fixed rates provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.

In the normal course of business, we also enter into contractual arrangements that contain a variety of representations and warranties and that include general indemnification obligations. Our maximum exposure under such arrangements is unknown due to the fact that the exposure would relate to claims that may be made against us in the future. Accordingly, no amounts have been included in our consolidated and combined financial statements as of December 31, 2009 relating to indemnification obligations.

The partnership documents governing our private equity funds generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return amounts to the fund for distribution to investors at the end of the life of the fund. The terms of the Transactions require that our principals remain responsible for any clawback obligation relating to carry distributions received prior to the Transactions up to a maximum of $223.6 million. Carry distributions arising subsequent to the Transactions may give rise to clawback obligations that will be allocated generally to carry pool participants and the Combined Business in accordance with the terms of the instruments governing the KKR Group Partnerships.

The instruments governing certain of our private equity funds may also include a "net loss sharing provision," that, if triggered, may give rise to a contingent obligation that may require the general partners to contribute capital to the fund, to fund 20% of the net losses on investments attributed to the limited partners of such fund. In connection with the "net loss sharing provisions," certain of our private equity vehicles allocate a greater share of their investment losses to us relative to the amounts contributed by us to those vehicles. In these vehicles, such losses would be required to be paid by us to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had been previously distributed. Based on the fair market values as of December 31, 2009, our contingent repayment obligation would have been approximately $93.6 million. If the vehicles were liquidated at zero value, the contingent repayment obligation would have been approximately $1,182.7 million as of December 31, 2009.

Unlike the "clawback" provisions, the Combined Business will be responsible for amounts due under net loss sharing arrangements and will indemnify our principals for personal guarantees that they have provided with respect to such amounts. See "Certain Relationships and Related Party Transactions Guarantee of Contingent Obligations to Fund Partners; Indemnification."

Contractual Obligations, Commitments and Contingencies on a Consolidated Basis

In the ordinary course of business, we and our consolidated funds enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of December 31, 2009. This table differs from the earlier table setting forth contractual commitments on an unconsolidated basis principally because this table includes the obligations of our consolidated funds.

Types of Contractual Obligations	Payments due by Period <1 Year	1-3 Years	3-5 Years	>5 Years	Total
	($ in millions)				
Uncalled commitment to investment funds(1)	$ 14,544.4	$	$	$	$ 14,544.4
Debt payment obligations(2)	350.0	905.1	180.1	625.0	2,060.2
Interest obligations on debt(3)	135.2	39.0	19.7	72.0	265.9
Lease obligations	30.4	52.6	47.9	93.9	224.8
Total	$ 15,060.0	$ 996.7	$ 247.7	$ 790.9	$ 17,095.3

(1) These uncalled commitments represent dollars committed by us and our fund investors to fund a portion of the purchase price paid for each investment made by our investment funds. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See " Liquidity Liquidity Needs."

(2) Certain of our consolidated funds have entered into financing arrangements in connection with specific investments with the objective of enhancing returns. Such financing arrangements include $796.4 million of financing provided through total return swaps and $180.1 million of financing provided through a term loan and revolving credit facility. These financing arrangements have been entered into with the objective of enhancing returns and are not direct obligations of the general partners of our private equity funds or our management companies.

Subsequent to December 31, 2009, the $350.0 million of obligations due within 1 year were repaid in connection with the settlement of an investment underlying these obligations. Also subsequent to December 31, 2009, $429.1 million of other obligations were repaid.

(3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming no prepayments are made and the related debt is held until its final maturity date. Future interest rates have been calculated using rates in effect as of December 31, 2009, including both variable and fixed rates provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.

Off Balance Sheet Arrangements

Other than contractual commitments and other legal contingencies incurred in the normal course of our business, we do not have any off-balance sheet financings or liabilities.

Consolidated Statement of Cash Flows

The accompanying combined statements of cash flows include the cash flows of our consolidated funds despite the fact that we have only a minority economic interest in those funds. The assets of consolidated funds, on a gross basis, are substantially larger than the assets of our business and, accordingly, have a substantial effect on the cash flows reflected in our combined statements of cash flows. The primary cash flow activities of our consolidated funds involve: (i) raising capital from fund investors; (ii) using the capital of fund investors to make investments; (iii) financing certain investments with indebtedness; (iv) generating cash flows through the realization of investments; and (v) distributing cash flows from the realization of investments to fund investors. Because our consolidated funds are

Table of Contents

treated as investment companies for accounting purposes, these cash flow amounts are included in our cash flows from operations.

Net Cash Used in Operating Activities

Our net cash used in operating activities was $0.3 billion, $2.4 billion and $8.5 billion during the years ended December 31, 2009, 2008 and 2007, respectively. These amounts primarily included: (i) purchases of investments by our funds, net of proceeds from sales of investments, of $1.2 billion, $1.9 billion and $11.8 billion during the years ended December 31, 2009, 2008 and 2007, respectively; (ii) net realized gains (losses) on investments of the consolidated funds of $(0.3) billion, $0.3 billion and $1.6 billion during the years ended December 31, 2009, 2008 and 2007, respectively; (iii) change in unrealized gains (losses) on investments of $7.8 billion, $(13.2) billion and $(0.4) billion for the years ended December 31, 2009, 2008 and 2007, respectively; and (iv) income (loss) attributable to noncontrolling interests of $6.0 billion, $(11.9) billion and $1.6 billion during the years ended December 31, 2009, 2008 and 2007, respectively. These amounts are reflected as operating activities in accordance with investment company accounting.

Net Cash Used in Investing Activities

Our net cash used in investing activities was $43.0 million, $61.7 million and $112.5 million during the years ended December 31, 2009, 2008 and 2007, respectively. Our investing activities included the purchases of furniture, equipment and leasehold improvements of $21.1 million, $13.1 million and $17.1 million, as well as an increase in restricted cash and cash equivalents to fund collateral requirements of $21.9 million, $4.5 million and $95.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. In addition, for the year ended December 31, 2008, $44.2 million was used to purchase the noncontrolling interest in our Public Markets segment.

Net Cash Provided by Financing Activities

Our net cash provided by financing activities was $0.7 billion, $2.4 billion and $8.8 billion during the years ended December 31, 2009, 2008 and 2007, respectively. Our financing activities primarily included: (i) contributions, net of distributions made to noncontrolling interests, of $0.8 billion, $2.8 billion and $7.1 billion during the years ended December 31, 2009, 2008 and 2007, respectively; (ii) repayment of debt obligations net of proceeds received of $(0.3) billion, $(0.2) billion and $2.6 billion for the years ended December 31, 2009, 2008 and 2007, respectively; and (iii) distributions to, net of contributions by, our equity holders of $0.2 billion, $0.1 billion and $0.9 billion during the years ended December 31, 2009, 2008 and 2007, respectively.

Critical Accounting Policies

The preparation of our consolidated and combined financial statements in accordance with GAAP requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenues, income and expense. Our management bases these estimates and judgments on available information, historical experience and other assumptions that we believe are reasonable under the circumstances. However, these estimates, judgments and assumptions are often subjective and may be impacted negatively based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from those estimated, judged or assumed, revisions are included in the consolidated and combined financial statements in the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying estimates, judgments or assumptions. Please see the notes to the consolidated and combined financial statements included elsewhere in this document for further detail regarding our critical accounting policies.

Table of Contents

Principles of Consolidation

Our policy is to consolidate (i) those entities in which we hold a majority voting interest or have majority ownership and control over significant operating, financial and investing decisions of the entity including those KKR Funds in which the general partner is presumed to have control or (ii) entities determined to be variable interest entities ("VIEs") for which we are considered the primary beneficiary and absorb a majority of the expected losses or a majority of the expected residual returns, or both.

The majority of the entities consolidated by us are comprised of: (i) those entities in which we have majority ownership and have control over significant operating, financial and investing decisions and (ii) the consolidated KKR Funds, which are those entities in which we hold substantive, controlling general partner or managing member interests. With respect to the consolidated KKR Funds, we generally have operational discretion and control, and limited partners have no substantive rights to impact ongoing governance and operating activities of the fund.

The consolidated KKR funds do not consolidate their majority-owned and controlled investments in portfolio companies. Rather, those investments are accounted for as investments and carried at fair value as described below.

The KKR funds are consolidated notwithstanding the fact that we have only a minority economic interest in those funds. The consolidated and combined financial statements reflect the assets, liabilities, revenues, expenses, investment income and cash flows of the consolidated KKR Funds on a gross basis, and the majority of the economic interests in those funds, which are held by third-party investors, are attributed to noncontrolling interests in the accompanying consolidated and combined financial statements. Substantially all of the management fees and certain other amounts earned by us from those funds are eliminated in consolidation. However, because the eliminated amounts are earned from, and funded by, noncontrolling interests, our attributable share of the net income from those funds is increased by the amounts eliminated. Accordingly, the elimination in consolidation of such amounts has no effect on net income (loss) attributable to the Group Holdings or Group Holdings' partners' capital.

Noncontrolling interests represent the ownership interests held by entities or persons other than Group Holdings.

Fair Value of Investments

Our consolidated funds are treated as investment companies under investment company accounting guidance for the purposes of GAAP and, as a result, reflect their investments on the consolidated and combined statement of financial condition at fair value, with unrealized gains or losses resulting from changes in fair value reflected as a component of investment income in the consolidated and combined statements of operations. We have retained the specialized accounting of the consolidated funds.

We measure and report our investments in accordance with fair value accounting guidance, which establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively 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.

Table of Contents

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

Level I Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include publicly listed equities and publicly listed derivatives. In addition, securities sold, but not yet purchased and call options are included in Level I. We do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably affect the quoted price. We classified 22.6% of total investments measured and reported at fair value as Level I at December 31, 2009.

Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. In certain cases, debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments. Investments which are generally included in this category include corporate bonds and loans, convertible debt indexed to publicly listed securities and certain over-the-counter derivatives. We classified 10.4% of total investments measured and reported at fair value as Level II at December 31, 2009.

Level III Pricing 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. Investments that are included in this category generally include private portfolio companies held through our private equity funds. We classified 67.0% of total investments measured and reported at fair value as Level III at December 31, 2009. The valuation of our Level III investments at December 31, 2009 represents management's best estimate of the amounts that we would anticipate realizing on the sale of these investments at such date.

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

When determining fair values of investments, we use the last reported market price as of the statement of financial condition date for investments that have readily observable market prices. If no sales occurred on such day, we use the "bid" price at the close of business on that date and, if sold short, the "asked" price at the close of business on that date day. Forward contracts are valued based on market rates or prices obtained from recognized financial data service providers.

The majority of our private equity investments are valued utilizing unobservable pricing inputs. Management's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors. We generally employ two valuation methodologies when determining the fair value of a private equity investment. The first methodology is typically a market multiples approach that considers a specified financial measure (such as EBITDA) and recent public market and private transactions and other available measures for valuing comparable companies. Other factors such as the applicability of a control premium or illiquidity discount, the presence of significant unconsolidated assets and liabilities and any favorable or unfavorable tax attributes are also considered in arriving at a market multiples valuation. The second methodology utilized is typically a discounted cash flow approach. In this approach, we will incorporate significant assumptions and judgments in determining the most likely buyer, or market participant for a

Table of Contents

hypothetical sale, which might include an initial public offering, private equity investor, strategic buyer or a transaction consummated through a combination of any of the above. Estimates of assumed growth rates, terminal values, discount rates, capital structure and other factors are employed in this approach. The ultimate fair value recorded for a particular investment will generally be within the range suggested by the two methodologies, adjusted for issues related to achieving liquidity including size, registration process, corporate governance structure, timing, an initial public offering discount and other factors, if applicable. As discussed above, we utilize several unobservable pricing inputs and assumptions in determining the fair value of our private equity investments. These unobservable pricing inputs and assumptions may differ by investment and in the application of our valuation methodologies. Our reported fair value estimates could vary materially if we had chosen to incorporate different unobservable pricing inputs and other assumptions.

Approximately 22.6%, or $6.6 billion, and 9.9%, or $2.1 billion, of the value of our investments were valued using quoted market prices, which have not been adjusted, as of December 31, 2009 and 2008, respectively.

Approximately 77.4%, or $22.4 billion, and 90.1%, or $18.8 billion, of the value of our investments were valued in the absence of readily observable market prices as of December 31, 2009 and 2008, respectively. The majority of these investments were valued using internal models with significant unobservable market parameters and our determinations of the fair values of these investments may differ materially from the values that would have resulted if readily observable market prices had existed. Additional external factors may cause those values, and the values of investments for which readily observable market prices exist, to increase or decrease over time, which may create volatility in our earnings and the amounts of assets and partners' capital that we report from time to time.

Our calculations of the fair values of private company investments were reviewed by Duff & Phelps, LLC, an independent valuation firm, who provided third-party valuation assistance to us, which consisted of certain limited procedures that we identified and requested it to perform. Upon completion of such limited procedures, Duff & Phelps, LLC, concluded that the fair value, as determined by us, of those investments subjected to their limited procedures did not appear to be unreasonable. The limited procedures did not involve an audit, review, compilation or any other form of examination or attestation under generally accepted auditing standards. The general partners of our funds are responsible for determining the fair value of investments in good faith, and the limited procedures performed by Duff & Phelps, LLC, are supplementary to the inquiries and procedures that the general partner of each fund is required to undertake to determine the fair value of the investments.

Changes in the fair value of the investments of our consolidated private equity funds may impact the net gains (losses) from investment activities of our private equity funds as described under " Key Financial Measures Investment Income Net Gains (Losses) from Investment Activities." Based on the investments of our private equity funds as of December 31, 2009, we estimate that an immediate 10% decrease in the fair value of the funds' investments generally would result in a 10% immediate change in net gains (losses) from the funds' investment activities (including carried interest when applicable), regardless of whether the investment was valued using observable market prices or management estimates with significant unobservable pricing inputs. However, we estimate the impact that the consequential decrease in investment income would have on net income attributable to Group Holdings would be significantly less than the amount described above, given that a majority of the change in fair value would be attributable to noncontrolling interests.

Substantially all of the value of the investments in our consolidated fixed income funds were valued using observable market parameters, which may include quoted market prices, as of December 31, 2009 and 2008. Quoted market prices, when used, are not adjusted.

Table of Contents

Revenue Recognition

Fees consist primarily of (i) monitoring and transaction fees that we receive from our portfolio companies and capital markets activities and (ii) management and incentive fees that we receive directly from our unconsolidated funds. These fees are based upon the contractual terms of the management and other agreements that we enter into with the applicable funds, portfolio companies and third parties. We recognize fees in the period during which the related services are performed and the amounts have been contractually earned in accordance with the relevant management or other agreements. Incentive fees are accrued either annually or quarterly after all contingencies have been removed.

Our consolidated private equity funds require the management company to refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, a liability to the fund's limited partners is recorded and revenue is reduced for the amount of the carried interest recognized, not to exceed 20% of the management fees paid. As of December 31, 2009, the amount subject to refund for which no liability has been recorded totaled $148.9 million as a result of certain funds not yet recognizing sufficient carried interests. The refunds to the limited partners are paid, and the liabilities relieved, at such time that the underlying investments are sold and the associated carried interests are realized. In the event that a fund's carried interest is not sufficient to cover all or a portion of the amount that represents 20% of the earned management fees, these fees will not be refunded to the funds' limited partners, in accordance with the respective agreements.

Recognition of Investment Income

Investment income consists primarily of the unrealized and realized gains (losses) on investments (including the impacts of foreign currency on non-dollar denominated investments), dividend and interest income received from investments and interest expense incurred in connection with investment activities. Unrealized gains or losses result from changes in the fair value of our funds' investments during a period as well as the reversal of unrealized gains or losses in connection with realization events. Upon disposition of an investment, previously recognized unrealized gains or losses are reversed and a corresponding realized gain or loss is recognized in the current period. While this reversal generally does not significantly impact the net amounts of gains (losses) that we recognize from investment activities, it affects the manner in which we classify our gains and losses for reporting purposes.

Due to the consolidation of the majority of our funds, the share of our funds' investment income that is allocable to our carried interests and capital investments is not shown in the consolidated and combined financial statements. Instead, the investment income that Group Holdings retains in its net income, after allocating amounts to noncontrolling interests, represents the portion of its investment income that is allocable to us. Because the substantial majority of our funds are consolidated and because we hold only a minority economic interest in our funds' investments, our share of the investment income generated by our funds' investment activities is significantly less than the total amount of investment income presented in its consolidated and combined financial statements.

We recognize investment income with respect to our carried interests in investments of our private equity funds and co-investment vehicles, the capital invested by or on behalf of the general partners of our private equity funds and the noncontrolling interests that third-party fund investors hold in our consolidated funds.

Table of Contents

Recognition of Carried Interests in Statement of Operations

Carried interests entitle the general partner of a fund to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduce noncontrolling interests' attributable share of those earnings. Amounts earned pursuant to carried interests in the KKR Funds are included as investment income in Net Gains (Losses) from Investment Activities and are earned by the general partner of those funds to the extent that cumulative investment returns are positive. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reduced and reflected as investment losses. Carried interest is recognized based on the contractual formula set forth in the instruments governing the fund as if the fund was terminated at the reporting date with the then estimated fair values of the investments realized. Due to the extended durations of our private equity funds, management believes that this approach results in income recognition that best reflects our periodic performance in the management of those funds.

The instruments governing our private equity funds generally include a "clawback" or, in certain instances, a "net loss sharing" provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return or contribute amounts to the fund for distribution to investors at the end of the life of the fund.

Clawback Provision

Under a "clawback" provision, upon the liquidation of a private equity fund, the general partner is required to return, on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled.

Prior to the Transactions, certain KKR principals who received carried interest distributions with respect to the private equity funds had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of the private equity funds to repay amounts to fund limited partners pursuant to the general partners' clawback obligations. The terms of the Transactions require that KKR principals remain responsible for clawback obligations relating to carry distributions received prior to the Transactions up to a maximum of $223.6 million.

Carry distributions arising subsequent to the Transactions will be allocated generally to carry pool participants and the Combined Business in accordance with the terms of the instruments governing the KKR Group Partnerships.

Net Loss Sharing Provision

The instruments governing certain of our private equity funds may also include a "net loss sharing provision," that, if triggered, may give rise to a contingent obligation that may require the general partners to contribute capital to the fund, to fund 20% of the net losses on investments. In connection with the "net loss sharing provisions," certain of our private equity funds allocate a greater share of their investment losses to us relative to the amounts contributed by us to those vehicles. In these vehicles, such losses would be required to be paid by our to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed. Unlike the "clawback" provisions, we will be responsible for amounts due under net loss sharing arrangements and will indemnify our principals for personal guarantees that they have provided with respect to such amounts.

Table of Contents

Recent Accounting Pronouncements

Effective January 2009, we adopted guidance on the accounting and financial statement presentation of noncontrolling (minority) interests. The guidance requires reporting entities to present non-redeemable noncontrolling interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interest holders. As a result, (i) with respect to the statements of financial condition, noncontrolling interests have been reclassified as a component of Equity, (ii) with respect to the statements of operations, Net Income (Loss) is presented before noncontrolling interests and the statements of operations net to Net Income (Loss) Attributable to Group Holdings, and (iii) with respect to the statements of changes in equity, a roll forward column has been included for noncontrolling interests. The presentation and disclosure requirements have been applied retrospectively for all periods presented in accordance with the issued guidance. The guidance also clarifies the scope of accounting and reporting for decreases in ownership of a subsidiary to include groups of assets that constitute a business. The scope clarification did not have a material impact on the financial statements.

Effective January 1, 2009, we adopted guidance issued by the FASB regarding disclosures about derivative instruments and hedging activities. The purpose of the guidance is to improve financial reporting of derivative instruments and hedging activities. The guidance requires enhanced disclosures to enable investors to better understand how those instruments and activities are accounted for, how and why they are used and their effects on an entity's financial position, financial performance and cash flows. The adoption resulted in additional required disclosures relating to derivative instruments, which have been reflected in the accompanying financial statements.

Effective January 1, 2009, we adopted guidance on the determination of the useful life of intangible assets. The guidance amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. The new guidance applies prospectively to (a) intangible assets that are acquired individually or with a group of other assets and (b) both intangible assets acquired in business combinations and asset acquisitions. We did not acquire any intangible assets during the year ended December 31, 2009.

In April 2009, the Financial Accounting Standards Board ("FASB") updated Accounting Standards Codification Section 820 ("ASC 820") in order to help constituents estimate fair value when the volume and level of activity have significantly decreased for an asset or liability recorded at fair value, as well as including guidance on identifying circumstances that indicate a transaction is not orderly. The updated accounting guidance was effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The adoption of this ASC 820 update did not have a material impact on our financial statements.

In April 2009, the FASB updated Accounting Standards Codification Section 320 ("ASC 320") to provide new guidance on the recognition of other-than-temporary impairments of investments in debt securities and provide new presentation and disclosure requirements for other-than-temporary impairments of investments in debt and equity securities. The updated accounting guidance is effective for financial statements issued for interim or annual periods ending after June 15, 2009. The adoption of this ASC 320 update did not have a material impact on our financial statements.

In April 2009, the FASB updated Accounting Standards Codification Section 825 ("ASC 825") to require disclosures about fair value of financial instruments in interim reporting periods. Such disclosures were previously required only in annual financial statements. The updated disclosure guidance was effective for financial statements issued for interim or annual periods ending after June 15, 2009. The adoption of this ASC 825 update did not have a material impact on our financial statements.

Table of Contents

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R),* and the FASB subsequently codified it as ASU 2009-17, updating ASC Section 810 *Consolidations*. The objective of ASU 2009-17 is to improve financial reporting by enterprises involved with variable interest entities. The FASB undertook this project to address (1) the effects on certain provisions of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities an Interpretation of ARB No. 51, as revised* ("FIN 46(R)"), as a result of the elimination of the qualifying special-purpose entity concept in ASU 2009-16, and (2) constituent concerns about the application of certain key provisions of FIN 46(R), including those in which the accounting and disclosures under the interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. ASU 2009-17 shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. During February 2010, the scope of the ASU was modified to indefinitely exclude certain entities from the requirement to be assessed for consolidation. We are currently evaluating the potential impacts of the adoption of ASU 2009-17 on our statements of operations and financial condition.

In July 2009, the FASB issued *The FASB Accounting Codification and the Hierarchy of Generally Accepted Accounting Principles*, as defined in Accounting Standards Codification Section 105 ("Codification"). Codification will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of U.S. federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-SEC accounting literature not included in the Codification will become nonauthoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted the guidance effective with the issuance of its December 31, 2009 financial statements. As the guidance is limited to disclosure in the financial statements and the manner in which we refer to GAAP authoritative literature, there was no material impact on our financial statements.

In September 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-06, *Income Taxes (Topic 740) Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities* ("ASU 2009-06") which amended Accounting Standards Codification Subtopic 740-10, *Income Taxes Overall*. The updated guidance considers an entity's assertion that it is a tax-exempt not for profit or a pass through entity as a tax position that requires evaluation under Subtopic 740-10. In addition, ASU 2009-06 provided implementation guidance on the attribution of income taxes to entities and owners. The revised guidance is effective for periods ending after September 15, 2009. The adoption of ASU 2009-06 did not have a material impact on the financial statements.

In September 2009, the FASB issued ASU No. 2009-12, Fair Value Measurements and Disclosures (Topic 820) *Investments in Certain Entities That Calculate Net Asset Value per Share* (or Its Equivalent) ("ASU 2009-12") which amended Accounting Standards Codification Subtopic 820-10, *Fair Value Measurements and Disclosures Overall*. The guidance permits, as a practical expedient, an entity holding investments in certain entities that calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that net asset value per share or its equivalent without adjustment. The guidance also requires disclosure of the attributes of investments within the scope of the guidance by major category of investment. Such disclosures include the nature of any restrictions on an investor's ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investee. The guidance is effective for interim and annual periods ending after December 15, 2009 with early adoption permitted. The adoption of ASU 2009-12 did not have a material impact on the fair value determination of applicable investments; however, it will result in additional required disclosures.

Table of Contents

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures About Fair Value Measurements* which amended ASC 820, *Fair Value Measurements and Disclosures*. The updated guidance requires an entity to present detailed disclosures about transfers to and from Level 1 and 2 of the Valuation Hierarchy effective January 1, 2010 and requires an entity to present purchases, sales, issuances, and settlements on a "gross" basis within the Level 3 (of the Valuation Hierarchy) reconciliation effective January 1, 2011. We will adopt the guidance during 2010 and 2011, as required, and the adoption will have no material impact on our financial position or results of operations; however, it will result in additional required disclosures.

In February 2010, the FASB updated Accounting Standards Codification Section 855 ("ASC 855"), *Subsequent Events*, which addresses certain implementation issues related to an entity's requirement to perform and disclose subsequent event procedures. The updated guidance requires SEC filers and conduit debt obligors for conduit debt securities that are traded in a public market to evaluate subsequent events through the date the financials are issued. All other entities are required to "evaluate subsequent events through the date the financial statements are available to be issued." This guidance also exempts SEC filers from disclosing the date through which subsequent events have been evaluated. The guidance is effective immediately. We have taken into consideration this guidance when evaluating subsequent events and have included in the financial statements the required disclosures.

Qualitative and Quantitative Disclosures About Market Risk

Our exposure to market risks primarily relates to its role as general partner or manager of our funds and sensitivities to movements in the fair value of their investments, including the effect that those movements have on the management fees and carried interests that we receive. We have an increased exposure to market risks as a result of the principal assets. The fair value of investments may fluctuate in response to changes in the value of securities, foreign currency exchange rates and interest rates.

Market Risk

Our funds hold investments that are reported at fair value. Net changes in the fair value of investments impact the net gains from investments in our combined statements of operations. Based on the investments of our funds as of December 31, 2009, we estimate that a 10% decrease in the fair value of our funds' investments would result in a corresponding reduction in investment income. However, we estimate the impact that the consequential decrease in investment income would have on our reported income attributable to Group Holdings would be significantly less than the amount presented above, given that a substantial majority of the change in fair value would be attributable to noncontrolling interests.

Our base management fees in our private equity funds are calculated based on the amount of capital committed or invested by a fund, as described under "Business Our Segments Private Markets." In the case of our Public Markets business, management fees are often calculated based on the average NAV of the fund, vehicle, or specialty finance company, for that particular period. To the extent that base management fees are calculated based on the NAV of the fund's investments, the amount of fees that we may charge will be increased or decreased in direct proportion to the effect of changes in the fair value of the fund's investments. The proportion of our management and other amounts that are based on NAV depends on the number and type of funds in existence. Currently, a majority of our private equity funds are based on a percentage of committed or invested capital.

Securities Market Risk

Our investment funds make certain investments in portfolio companies whose securities are publicly traded. The market prices of securities 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

Table of Contents

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, re-financings, acquisitions and dispositions. In addition, although our private equity funds primarily 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.

Exchange Rate Risk

Our private equity funds make investments from time to time in currencies other than those in which their capital commitments are denominated. Those investments expose us and our fund investors to the risk that the value of the investments will be affected by changes in exchange rates between the currency in which the capital commitments are denominated and the currency in which the investments are made. Our policy is to minimize these risks by employing hedging techniques, including using foreign currency options and foreign exchange contracts to reduce exposure to future changes in exchange rates when our funds have invested a meaningful amount of capital in currencies other than the currencies in which their capital commitments are denominated.

Because most of the capital commitments to our funds are denominated in U.S. dollars, our primary exposure to exchange rate risk relates to movements in the value of exchange rates between the U.S. dollar and other currencies in which our investments are denominated (primarily euro, British pound and Australian dollars). We estimate that a simultaneous parallel movement by 10% in the exchange rates between the U.S. dollar and all of the major foreign currencies in which our funds' investments were denominated as of December 31, 2009 would result in net gains or losses from investment activities of our funds of $391.1 million. However, we estimate that the effect on its income before taxes and its net income from such a change would be significantly less than the amount presented above, because a substantial majority of the gain or loss would be attributable to noncontrolling interests in our funds.

Credit Risk

We are 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, we depend on these counterparties to make payment or otherwise perform. We generally endeavor to minimize our risk of exposure by limiting the counterparties with which we enter into financial transactions to reputable financial institutions. In addition, availability of financing from financial institutions may be uncertain due to market events, and we may not be able to access these financing markets.

Interest Rate Risk

We have debt obligations that include revolving credit agreements and certain investment financing arrangements structured through the use of total return swaps which effectively convert third party capital contributions into our borrowings. These debt obligations accrue interest at variable rates, and changes in these rates would affect the amount of interest payments that we would have to make, impacting future earnings and cash flows. Based on our debt obligations payable at December 31, 2009 (inclusive of debt obligations of our consolidated funds), we estimate that interest expense relating to variable rates would increase on an annual basis by $20.6 million in the event interest rates were to increase by 100 basis points. The estimated impact on interest expense, excluding the debt obligations of our consolidated funds, is $10.8 million.

Table of Contents

BUSINESS

Overview

Led by Henry Kravis and George Roberts, we are a global alternative asset manager with $52.2 billion in AUM as of December 31, 2009 and a 34-year history of leadership, innovation and investment excellence. When our founders started our firm in 1976, they established the principles that guide our business approach today, including a patient and disciplined investment process; the alignment of our interests with those of our investors, portfolio companies and other stakeholders; and a focus on attracting world-class talent.

Our business offers a broad range of asset management services to our investors and provides capital markets services to our firm, our portfolio companies and our clients. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 170 private equity investments with a total transaction value in excess of $425 billion. In recent years, we have grown our firm by expanding our geographical presence and building businesses in new areas, such as fixed income and capital markets. Our new efforts build on our core principles, leverage synergies in our business, and allow us to capitalize on a broader range of opportunities that we source. Additionally, we have increased our focus on servicing our existing investors and have invested meaningfully in developing relationships with new investors.

With over 600 people, we conduct our business through 14 offices on four continents, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. We have grown our AUM significantly, from $15.1 billion as of December 31, 2004 to $52.2 billion as of December 31, 2009, representing a compounded annual growth rate of 28.1%. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

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

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

Strengths

Over our history, we have developed a business approach that centers around three key principles: (i) adhere to a patient and disciplined investment process; (ii) align our interests with those of our investors and other stakeholders; and (iii) attract world-class talent for our firm and portfolio companies. Based on these principles, we have developed a number of strengths that we believe differentiate us as an alternative asset manager and provide additional competitive advantages that can be leveraged to grow our business and create value. These include:

Firm Culture and People

When our founders started our firm in 1976, leveraged buyouts were a novel form of corporate finance. With no financial services firm to use as a model and little interest in copying an existing formula, our founders sought to build a firm based on principles and values that would provide a proper institutional foundation for years to come. We believe that our success and industry leadership has been largely attributable to the culture of our firm and the values we live by. We believe that our experienced and talented people, who represent our culture and values, have been the key to our success and growth. These values and our "one firm" culture will not change as a result of this offering.

Leading Brand Name

The "KKR" name is associated with: experience and success in private equity transactions worldwide; a focus on operational value creation in portfolio companies; a strong investor base; a global network of leading business relationships; a reputation for integrity and fair dealing; creativity and innovation; and superior investment performance. The strength of our brand helps us attract world-class talent, raise capital and obtain access to investment opportunities. It has also provided the firm with a foundation to expand and diversify into new business lines. We intend to leverage this strength as we continue to grow and expand our businesses.

Global Presence and Integrated One Firm Approach

We are a global firm. Although our operations span multiple continents and business lines, we have a common culture and are focused on sharing knowledge, resources and best practices throughout our offices and across asset classes. With offices in 14 major cities on four continents, we have created an integrated global platform for sourcing and making investments in multiple asset classes and throughout the capital structure. Our global and diversified operations are supported by extensive local market knowledge, which provides an advantage for sourcing investments, consummating transactions and raising capital from a broad base of investors globally.

Our investment processes are overseen by investment committees that operate globally and a portfolio management committee monitors our private equity investments. Where appropriate, investment professionals across our various businesses work together and with our capital markets team to source and execute investment opportunities. We believe that operating as an integrated firm enhances the growth and stability of our business and helps optimize the decisions we make across asset classes and geographies.

Sourcing Advantage

We believe that we have a competitive advantage for sourcing new investment opportunities as a result of our internal deal generation strategies, industry expertise and global network. Across our businesses, our investment professionals are organized into industry groups and work closely with our operating consultants and senior advisors to identify attractive businesses. These teams conduct their own primary research, develop views on industry themes and trends, and identify companies in which we may want to invest.

We also maintain relationships with leading executives from major companies, commercial and investment banks and other investment and advisory institutions. Through our industry focus and global network, we often are able to obtain exclusive or limited access to investments that we identify. Our reputation as a patient and long-term investor also makes us an attractive source of capital for companies and, through our relationships with major financial institutions, we generate additional transaction opportunities.

Distinguished Track Record Across Economic Cycles

We have successfully employed our patient and disciplined investment process through all types of economic and financial conditions, developing a track record that distinguishes the firm. From our inception through December 31, 2009, our private equity funds with at least 36 months of investment activity generated a cumulative gross IRR of 25.8%, compared to the 11.5% gross IRR achieved by the S&P 500 Index over the same period. Additionally, we established our fixed income business in 2004 and, despite difficult market conditions, the returns in each of our core strategies since inception have outperformed relevant benchmarks.

Sizeable Long-Term Capital Base

As of December 31, 2009, we had $52.2 billion of AUM, making us one of the largest independent alternative asset managers in the world. Our private equity funds and certain of our co-investment vehicles receive capital commitments from investors that may be called for during an investment period that typically lasts for six years and may remain invested for up to approximately 12 years from the acquisition date. In addition, our specialty finance company as well as our structured finance vehicles include capital that is either long-dated or has no fixed maturity. As of December 31, 2009, approximately 93%, or $48.6 billion, of our AUM had a contractual life at inception of at least 10 years, which has provided a stable source of long-term capital for our business.

Long-Standing Investor Relationships

We have established strong relationships with our investors, which has allowed us to raise significant amounts of capital for investment across a broad range of asset classes. We have a diversified group of investors, including some of the largest public and private pension plans, global financial institutions, university endowments and other institutional and public market investors. Many of these investors have invested with us for decades in various products that we have sponsored. We continue to develop relationships with new significant investors worldwide, providing an additional source of capital for our investment vehicles. We believe that the strength, breadth, duration and diversity of our investor relationships provides us with a significant advantage for raising capital from existing and new sources and will help us continue to grow our business.

Alignment of Interests

Since our inception, one of our fundamental philosophies has been to align the interests of the firm and our people with the interests of our investors, portfolio companies and other stakeholders. We achieve this by putting our own capital behind our ideas. We and our principals have over $6.5 billion invested in or committed to our own funds and portfolio companies, including $4.2 billion funded through our balance sheet, $1.3 billion of additional commitments to investment funds and $1.0 billion in personal investments.

Creativity and Innovation

We pioneered the development of the leveraged buyout and have worked throughout our history to create new and innovative structures for both raising capital and making investments. Our history of innovation includes establishing permanent capital vehicles for our Public Markets and Private Markets segments and developing new capital markets and distribution capabilities in North America, Europe and Asia.

Table of Contents

Growth Strategy

We intend to grow our business and create value for our common unitholders by:

- generating superior returns on assets that we manage and our principal assets;
- growing our assets under management;
- entering new businesses and creating new products that leverage our core competencies;
- continuing our expansion into new geographies with respect to both investing and raising capital;
- expanding our capital markets business; and
- using our principal assets to grow and invest in our business.

Our Firm

Global Operations

With offices in New York, Menlo Park, San Francisco, Houston, Washington, D.C., London, Paris, Hong Kong, Tokyo, Beijing, Seoul, Mumbai, Dubai and Sydney, we have established ourselves as a leading global alternative asset manager. Our expansion outside of the United States began in 1995 when we made our first investment in Canada. Since that time, we have taken a long-term strategic approach to investing globally and have multilingual and multicultural investment teams that have local market knowledge and significant business, investment and operational experience in the countries in which we invest. We believe that our global capabilities have assisted us in raising capital and capturing a greater number of investment opportunities, while enabling us to diversify our operations.

While our operations span multiple continents and asset classes, our investment professionals are supported by an integrated infrastructure and operate under a common set of principles and business practices that are monitored by global committees. The firm operates with a single culture that rewards investment discipline, creativity, determination and patience and the sharing of information, resources, expertise and best practices across offices and asset classes. When appropriate, we staff transactions across multiple offices and businesses in order to take advantage of the industry-specific expertise of our investment professionals, and we hold regular meetings in which investment professionals throughout our offices share their knowledge and experiences. We believe that the ability to draw on the local cultural fluency of our investment professionals while maintaining a centralized and integrated global infrastructure distinguishes us from other alternative asset managers and has been a substantial contributing factor to our ability to raise funds, invest internationally and expand our businesses.

Global Committees

Our investment processes are overseen by investment and portfolio management committees that operate globally. Our investment committees are responsible for reviewing and approving all investments made by their business segments monitoring due diligence practices and providing advice in connection with the structuring, negotiation, execution and pricing of investments. Our portfolio management function is responsible for working with our investment professionals from the date on which a private equity or fixed income investment is made until the time the investment is exited in order to ensure that strategic and operational objectives are accomplished and that the performance of the investment is closely monitored.

Table of Contents

Our Segments

Private Markets

Through our Private Markets segment, we manage and sponsor a group of investment funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. These investment funds and co-investment vehicles are managed by Kohlberg Kravis Roberts & Co. L.P., a registered investment advisor, and currently consist of a number of private equity funds that have a finite life and investment period, which are referred to as traditional private equity funds. As of December 31, 2009, the segment had $38.8 billion of AUM and our actively investing funds included geographically differentiated investment funds and vehicles with over $13.7 billion of unused capital commitments, providing a significant source of capital that may be deployed globally.

Private Markets Assets Under Management(1)
($ in billions)

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(1) Assets under management are presented pro forma for the Combination Transaction and, therefore, exclude the net asset value of KKR Guernsey and its commitments to our investment funds.

Throughout our history, we have consistently been a leader in the private equity industry. We consistently look for opportunities to leverage our private equity experience to enter complementary businesses. We recognize the important role that infrastructure plays in the growth of both developed and developing economies, and believe that the global infrastructure market provides an opportunity for the firm's combination of private investment, operational improvement, and regulatory stakeholder management skills. We began building out our infrastructure operations as a complementary business in 2008 in order to capitalize on the growing demand for global infrastructure investment and provide investors with an opportunity to invest in infrastructure assets as a distinct asset class.

Experience

We are a world leader in private equity, having raised 15 traditional private equity funds with approximately $59.7 billion of capital commitments through December 31, 2009. We invest in industry-leading franchises and attract world-class management teams. Our investment approach leverages our capital base, sourcing advantage, global network, industry knowledge, and unique access to operating consultants and senior advisors, which we believe sets us apart from other private equity firms.

Portfolio

The following charts present information concerning the amount of capital invested by traditional private equity funds by geography and industry through December 31, 2009. We believe that this data illustrates the benefits of our business approach and our ability to source and invest in deals in multiple industries and geographies.

Dollars Invested by Geography
(European Fund and Subsequent Funds as of December 31, 2009)

Dollars Invested by Industry
(European Fund and Subsequent Funds as of December 31, 2009)

Our current private equity portfolio held among our European Fund and subsequent funds consists of approximately 50 companies with more than $200 billion of annual revenues and more than 900,000 employees worldwide. These companies are headquartered in 13 countries and operate in 14 general industries which take advantage of our broad and deep industry and operating expertise. Many of these companies are leading franchises with global operations, strong management teams and attractive growth prospects, which we believe will provide benefits through a broad range of business conditions, including the current economic cycle.

The following table presents information concerning the portfolio companies in our private equity portfolio as of December 31, 2009.

Company Name	Year of Investment	Industry	Country
TASC, Inc.	2009	Technology	United States
Far Eastern Leasing Co., Ltd.	2009	Financial Services	China
Eastman Kodak Company	2009	Technology	United States
BMG Rights Management GmbH	2009	Media	Germany
Oriental Brewery	2009	Consumer Products	South Korea
East Resources, Inc.	2009	Energy	United States
Ma Anshan Modern Farming	2008	Consumer Products	China
KKR Debt Investors S.à r.l.	2008	Financial Services	United States
Legg Mason, Inc.	2008	Financial Services	United States
Unisteel	2008	Technology	Singapore

Table of Contents

Company Name	Year of Investment	Industry	Country
Northgate Information Solutions Limited	2008	Technology	United Kingdom
Bharti Infratel Limited	2008	Telecom	India
Harman International Industries, Inc.	2007	Consumer Products	United States
Laureate Education, Inc.	2007	Education	United States
Energy Future Holdings Corp.	2007	Energy	United States
First Data Corporation	2007	Financial Services	United States
Alliance Boots GmbH	2007	Health Care	United Kingdom
Biomet, Inc.	2007	Health Care	United States
Tarkett S.A.	2007	Manufacturing	France
Tianrui Group Cement Co., Ltd.	2007	Manufacturing	China
ProSiebenSat.1 Media AG	2007	Media	Germany
Dollar General Corporation	2007	Retail	United States
U.S. Foodservice, Inc.	2007	Retail	United States
MMI Holdings Limited	2007	Technology	Singapore
Yageo Corporation	2007	Technology	Taiwan
U.N. Ro-Ro Isletmeleri A.S.	2007	Transportation	Turkey
Capmark Financial Group Inc.	2006	Financial Services	United States
HCA Inc.	2006	Health Care	United States
BIS Cleanaway	2006	Recycling	Australia
KION Group GmbH	2006	Manufacturing	Germany
The Nielsen Company B.V.	2006	Media	United States
PagesJaunes Groupe S.A.	2006	Media	France
Seven Media Group	2006	Media	Australia
AVR Bedrijven N.V.	2006	Recycling	The Netherlands
Aricent Inc.	2006	Technology	India
NXP B.V.	2006	Technology	The Netherlands
TDC A/S	2006	Telecom	Denmark
Accellent Inc.	2005	Health Care	United States
Duales System Deutschland AG	2005	Recycling	Germany
Toys 'R' Us, Inc.	2005	Retail	United States
Avago Technologies Limited	2005	Technology	Singapore
SunGard Data Systems, Inc.	2005	Technology	United States
Sealy Corporation	2004	Consumer Products	United States
Jazz Pharmaceuticals, Inc.	2004	Health Care	United States
Visant Corporation	2004	Media	United States
A.T.U. Auto-Teile-Unger Holding GmbH	2004	Retail	Germany
Maxeda B.V.	2004	Retail	The Netherlands
Rockwood Holdings, Inc.	2004	Chemicals	United States
KSL Holdings Hotel del Coronado	2003	Hotel Leisure	United States
Legrand Holdings S.A.	2002	Manufacturing	France

Table of Contents

The table below presents information as of December 31, 2009 relating to our traditional private equity funds. This data does not reflect acquisitions or disposals of investments, changes in investment values or distributions occurring after December 31, 2009.

	As of December 31, 2009								
	Investment Period		Amount						
	Commencement Date(1)	End Date(1)	Commitment(2)	Uncalled Commitments	Percentage Committed by General Partner	Invested	Realized	Remaining Cost(3)	Fair Value(4)
	(Amounts in millions, except percentages)								
Private Markets									
E2 Investors (Annex Fund)	8/2009	11/2011	$ 555.1	$ 499.7	4.1%	$ 55.4	$	$ 55.4	$ 59.3
European Fund III	3/2008	3/2014	6,215.2	5,948.3	4.4%	266.9		266.9	194.9
Asian Fund	7/2007	7/2013	4,000.0	2,399.1	2.5%	1,600.9		1,600.9	1,713.2
2006 Fund	9/2006	9/2012	17,642.2	4,618.5	2.1%	13,023.6	215.1	12,813.4	12,252.3
European Fund II	11/2005	10/2008	5,750.8		2.1%	5,750.8	606.1	5,491.3	3,418.7
Millennium Fund	12/2002	12/2008	6,000.0		2.5%	6,000.0	5,141.7	4,766.5	5,261.9
European Fund	12/1999	12/2005	3,085.4		3.2%	3,085.4	5,913.6	705.0	1,936.1
Co-Investment Vehicles	Various	Various	1,662.8	262.5	0.2%	1,400.3	71.2	1,378.3	1,706.3
Total			44,911.5	13,728.1		31,183.3	11,947.7	27,077.7	26,542.7

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

(2) The amount committed represents the aggregate capital commitments to the fund, including capital commitments by third-party fund investors and the general partner. Foreign currency commitments have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate that prevailed on December 31, 2009, in the case of unfunded commitments.

(3) The remaining cost represents investors' initial investment adjusted for any return of capital in assets still held by the fund.

(4) Fair value refers to the value determined by us in accordance with U.S. GAAP.

Performance

We take a long-term approach to private equity investments and measure the success of our investments over a period of years rather than months. Given the duration of our private equity investments, the firm focuses on realized multiples of invested capital and IRRs when deploying capital in private equity transactions. Since our inception, we have completed more than 170 private equity investments involving an aggregate transaction value of more than $425 billion. We have nearly doubled the value of capital that we have invested in private equity, turning $46.3 billion of capital into $86.5 billion of value.

Amount Invested and Total Value
Private Equity Investments
As of December 31, 2009

Table of Contents

From our inception in 1976 through December 31, 2009, our investment funds with at least 36 months of investment activity generated a cumulative gross IRR of 25.8%, compared to the 11.5% gross IRR achieved by the S&P 500 Index over the same period, despite the cyclical and sometimes challenging environments in which we have operated. The S&P 500 Index is an unmanaged index and our returns assume reinvestment of distributions and do not reflect any fees or expenses.

The table below presents information as of December 31, 2009 relating to the historical performance of each of our traditional private equity funds since inception, which we believe illustrates the benefits of our private equity approach. This data does not reflect additional capital raised since December 31, 2009 or acquisitions or disposals of investments, changes in investment values or distributions occurring after that date. You are encouraged to review the cautionary note below for a description of reasons why the future results of our private equity funds may differ from the historical results of our private equity funds.

Private Equity Funds	Amount: Commitment	Amount: Invested	Fair Value of Investments: Realized	Fair Value of Investments: Unrealized	Fair Value of Investments: Total	Gross IRR*	Net IRR*	Multiple of Invested Capital**
	($ in millions)							
Legacy Funds(1)								
1976 Fund	$ 31	$ 31	$ 537	$	$ 537	39.5%	35.5%	17.1
1980 Fund	$ 357	$ 357	$ 1,828	$	$ 1,828	29.0%	25.8%	5.1
1982 Fund	$ 328	$ 328	$ 1,291	$	$ 1,291	48.1%	39.2%	3.9
1984 Fund	$ 1,000	$ 1,000	$ 5,963	$	$ 5,963	34.5%	28.9%	6.0
1986 Fund	$ 672	$ 672	$ 9,081	$	$ 9,081	34.4%	28.9%	13.5
1987 Fund	$ 6,130	$ 6,130	$ 14,787	$ 61	$ 14,848	12.1%	8.9%	2.4
1993 Fund	$ 1,946	$ 1,946	$ 4,129	$ 8	$ 4,137	23.6%	16.8%	2.1
1996 Fund	$ 6,012	$ 6,012	$ 11,402	$ 703	$ 12,105	17.9%	13.1%	2.0
Included Funds								
European Fund (1999)(2)	$ 3,085	$ 3,085	$ 5,914	$ 1,936	$ 7,850	26.8%	19.9%	2.5
Millennium Fund (2002)	$ 6,000	$ 6,000	$ 5,142	$ 5,262	$ 10,404	25.0%	17.7%	1.7
European Fund II (2005)(2)	$ 5,751	$ 5,751	$ 606	$ 3,419	$ 4,025	(13.0)%	(13.4)%	0.7
2006 Fund	$ 17,642	$ 13,024	$ 215	$ 12,252	$ 12,467	(2.0)%	(2.8)%	1.0
Asian Fund (2007)(3)	$ 4,000	$ 1,601	$	$ 1,713	$ 1,713	*	*	1.1
European Fund III (2008)(2)(3)	$ 6,215	$ 267	$	$ 195	$ 195	*	*	0.7
Annex Fund (2009)(3)	$ 555	$ 55	$	$ 59	$ 59	*	*	1.1
All Funds	$ 59,724	$ 46,259	$ 60,895	$ 25,608	$ 86,503	25.8%	19.2%	1.9

(1) The last investment for each of the 1976 Fund, 1980 Fund, the 1982 Fund, the 1984 Fund and the 1986 Fund was liquidated on May 14, 2003, July 11, 2003, December 11, 1997, July 17, 1998 and December 29, 2004, respectively. The 1987 Fund and the 1993 Fund currently hold two investments, and it is not known when those investments will be liquidated. In the case of the 1976 Fund and the 1980 Fund, the last distributions made to fund investors occurred on May 17, 2002 and December 14, 1999, respectively.

(2) The capital commitments of the European Fund, the European Fund II, the European Fund III and the Annex Fund include euro-denominated commitments of €196.5 million, €2,597.2 million, €2,788.8 million and €165.5 million, respectively. Such amounts have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate prevailing on December 31, 2009 in the case of unfunded commitments.

(3) The gross IRR, net IRR and multiple of invested capital are calculated based on our first twelve traditional private equity funds, which represent all of our private equity funds that have invested for at least 36 months prior to December 31, 2009. None of the Asian Fund, the European Fund III and the Annex Fund had invested for at least 36 months as of December 31, 2009. We

therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to those funds.

*
IRRs measure the aggregate annual compounded returns generated by a fund's investments over a holding period. Net IRRs are calculated after giving effect to the allocation of realized and unrealized carried interest and the payment of any applicable management fees. Gross IRRs are calculated before giving effect to the allocation of carried interest and the payment of any applicable management fees. Past performance is not a guarantee of future results.

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

Cautionary Note Regarding Historical Fund Performance

The historical results for our funds described in this prospectus may not be indicative of the future results that you should expect from us, which could negatively impact the fees and incentive amounts received by us from such funds. In particular, our funds' future results may differ significantly from their historical results for the following reasons:

- the rates of returns of our funds reflect unrealized gains as of the applicable valuation date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments;

- you will not benefit from any value that was created in our funds prior to the Transactions to the extent such value has been realized and we may be required to repay excess amounts previously received in respect of carried interest in our funds if, upon liquidation of the fund, we have received carried interest distributions in excess of the amount to which we were entitled;

- future performance of our funds will be affected by macroeconomic factors, including negative factors arising from recent disruptions in the global financial markets that were not prevalent in the periods relevant to certain return data described in this prospectus;

- in recent historical periods, the rates of returns of some of our funds have been positively influenced by a number of investments that experienced a substantial decrease in the average holding period of such investments and rapid and substantial increases in value following the dates on which those investments were made; those trends and rates of return may not be repeated in the future, especially given that recent disruptions in the global financial markets have increased the difficulty of successfully exiting private equity investments;

- our funds' returns have benefited from investment opportunities and general market conditions that may not repeat themselves, including favorable borrowing conditions in the debt markets that have since deteriorated, thereby increasing both the cost and difficulty of financing transactions, and there can be no assurance that our current or future funds will be able to avail themselves of comparable investment opportunities or market conditions or that such market conditions will continue;

- the rates of return reflect our historical cost structure, which may vary in the future due to various factors described elsewhere in this prospectus and other factors beyond our control, including changes in laws; and

Table of Contents

we may create new funds and investment products in the future that reflect a different asset mix in terms of allocations among funds, investment strategies, and geographic and industry exposure.

Investment Approach

Our approach to making private equity investments focuses on achieving multiples of invested capital and attractive risk-adjusted IRRs by selecting high-quality investments that may be made at attractive prices, applying rigorous standards of due diligence when making investment decisions, implementing strategic and operational changes that drive value creation in acquired businesses, carefully monitoring investments and making informed decisions when developing investment exit strategies.

We believe that we have achieved a leading position in the private equity industry by applying a disciplined investment approach and by building strong partnerships with highly motivated management teams who put their own capital at risk. When making private equity investments, we seek out strong business franchises, attractive growth prospects, leading market positions and the ability to generate attractive returns. We do not participate in "hostile" transactions that are not supported by a target company's board of directors.

Sourcing and Selecting Investments

We have access to significant opportunities for making private equity investments as a result of our sizeable capital base, global platform and relationships with leading executives from major companies, commercial and investment banks and other investment and advisory institutions. Members of our global network frequently contact us with new investment opportunities, including a substantial number of exclusive investment opportunities and opportunities that are made available to only a very limited number of other firms. We also proactively pursue business development strategies that are designed to generate deals internally based on the depth of our industry knowledge and our reputation as a leading financial sponsor.

To enhance our ability to identify and consummate private equity investments, we have organized our investment professionals in industry-specific teams. Our industry teams work closely with our operating consultants and senior advisors to identify businesses that can be grown and improved. These teams conduct their own primary research, develop a list of industry themes and trends, identify companies and assets in need of operational improvement and seek out businesses and assets that will benefit from our involvement. They possess a detailed understanding of the economic drivers, opportunities for value creation and strategies that can be designed and implemented to improve companies across the industries in which we invest.

Due Diligence and the Investment Decision

When an investment team determines that an investment proposal is worth consideration, the proposal is formally presented to the private equity investment committee and the due diligence process commences. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment and to prepare a framework that may be used from the date of an acquisition to drive operational improvement and value creation. When conducting due diligence, investment teams evaluate a number of important business, financial, tax, accounting, environmental and legal issues in order to determine whether an investment is suitable. In connection with the due diligence process, investment professionals spend significant amounts of time meeting with a company's management and operating personnel, visiting plants and facilities and where appropriate speaking with customers and suppliers in order to understand the opportunities and risks associated with the proposed investment. Our investment professionals also use the services of outside accountants, consultants, lawyers, investment banks and industry experts as appropriate to assist them in this process. The private equity investment committee monitors all due diligence practices and must approve an investment before it may be made.

Building Successful and Competitive Businesses

When investing in a portfolio company, we partner with world-class management teams to execute on our investment thesis, and we rigorously track performance through regular reporting and detailed operational and financial metrics. We have developed a global network of experienced managers and operating executives who assist the portfolio companies in making operational improvements and achieving growth. We augment these resources with operational guidance from our operating consultants at KKR Capstone, senior advisors and investment teams and with "100-Day Plans" that focus the firm's efforts and drive our strategies. We emphasize efficient capital management, top-line growth, R&D spending, geographical expansion, cost optimization and investment for the long-term.

Realizing Investments

We have developed substantial expertise for realizing private equity investments. From our inception through December 31, 2009, the firm has generated approximately $60.9 billion of cash proceeds from the sale of our portfolio companies in initial public offerings and secondary offerings, recapitalizations, and sales to strategic buyers. When exiting investments, our objective is to structure the exit in a manner that optimizes returns for investors and, in the case of publicly traded companies, minimizes the impact that the exit has on the trading price of the company's securities. We believe that our ability to successfully realize investments is attributable in part to the strength and discipline of our portfolio management committee and capital markets business, as well as the firm's longstanding relationships with corporate buyers and members of the investment banking and investing communities.

Traditional Fund Structures

Most of the private equity funds that we sponsor and manage have finite lives and investment periods. Each fund is organized as a single partnership or a combination of separate domestic and overseas partnerships and each partnership is controlled by a general partner. Fund investors are limited partners who agree to contribute a specified amount of capital to the fund from time to time for use in qualifying investments during the investment period, which generally lasts up to six years depending on how quickly capital is deployed. Each fund's general partner is generally entitled to a carried interest that allocates to it 20% of the net profits realized by the limited partners from the fund's investments.

We enter into management agreements with our traditional private equity funds pursuant to which we receive management fees in exchange for providing the funds with management and other services. These management fees are calculated based on the amount of capital committed to a fund during the investment period and thereafter on the cost basis of the fund's investments, which causes the fees to be reduced over time as investments are liquidated. These management fees are paid by fund investors, who generally contribute capital to the fund in order to allow the fund to pay the fees to us. Our funds generally allocate management fees across individual investments and, as and when an investment generates returns, 20% of the allocated management fee is required to be returned to investors before a carried interest may be paid.

We also enter into monitoring agreements with our portfolio companies pursuant to which we receive periodic monitoring fees in exchange for providing them with management, consulting and other services, and we typically receive transaction fees from portfolio companies for providing them with financial advisory and other services in connection with specific transactions. In some cases, we may be entitled to other potential fees that are paid by an investment target when a potential investment is not consummated. Our traditional private equity fund agreements typically require us to share 80% of any advisory and other potential fees that are allocable to a fund (after reduction for expenses incurred allocable to a fund from unconsummated transactions) with fund investors in the form of a management fee reduction.

In addition, the agreements governing our traditional private equity funds enable investors in those funds to reduce their capital commitments available for further investments, on an investor-by-investor basis, in the event certain "key persons" (for example, both of Messrs. Kravis and Roberts, and, in the case of certain geographically or product focused funds, one or more of the executives focused on such funds) cease to be actively involved in the management of the fund. While these provisions do not allow investors to withdraw capital that has been invested or cause a fund to terminate, the occurrence of a "key man" event could cause disruption in our business, reduce the amount of capital that we have available for future investments and make it more challenging to raise additional capital in the future.

To the extent investors in our private equity funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our private equity funds, our principals or our affiliates under the federal securities laws and state laws. While the general partners and investment advisors to our private equity funds, including their directors, officers, other employees and affiliates, are generally indemnified by the private equity funds to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our private equity funds, such indemnity does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

Because fund investors typically are unwilling to invest their capital in a fund unless the fund's manager also invests its own capital in the fund's investments, our private equity fund documents generally require the general partners of the funds to make minimum capital commitments to the funds. The amounts of these commitments, which are negotiated by fund investors, generally range from 2% to 4% of a fund's total capital commitments at final closing. When investments are made, the general partner contributes capital to the fund based on its fund commitment percentage and acquires a capital interest in the investment that is not subject to a carried interest or management fees. Historically, these capital contributions have been funded with cash from operations that otherwise would be distributed to our principals. Subsequent to the Transactions, these general partner commitments are expected to be made through our Capital Markets and Principal Activities segment.

Other Private Equity Fund Vehicles

E2 Investors (Annex Fund). We have established the Annex Fund through which investors in the European Fund II and the Millennium Fund make additional investments in portfolio companies of the European Fund II, which was then fully invested. This fund has several features that distinguish it from our other traditional private equity funds, including: (i) it will not pay a management fee to us; (ii) its general partner will only be entitled to a carried interest after netting any losses, costs and expenses relating to European Fund II and certain Millennium Fund investments from the profits of the Annex Fund investments; and (iii) we have agreed not to charge transaction or incremental monitoring fees in connection with investments in which the Annex Fund participates. In addition, certain investors transferred a portion of their European Fund III commitments to the Annex Fund, which proportionately reduced the commitments available to the European Fund III and the overall amount of management fees payable by the European Fund III to us.

Other Private Equity Products. The amount of equity used to finance leveraged buyouts has increased significantly in recent years, creating significant opportunities to offer co-investment opportunities to both fund investors and other third parties. We have capitalized on this opportunity by building out our capital markets and distribution capabilities and creating new investment structures and products that allow us to syndicate a portion of the equity needed to finance acquisitions. These structures include co-investment vehicles and a principal protected private equity product, many of which entitle the firm to receive management fees and/or carry. As of December 31, 2009, we had $2.0 billion of AUM in fee and/or carry-paying products of this type.

Legacy Private Equity Funds. The investment period for each of the 1996 Fund and all prior funds has ended. Because the general partners of these funds are not expected to receive meaningful proceeds from further realizations, interests in the general partners were not contributed to the Combined Business in connection with the Transactions. KKR will, however, continue to provide the legacy funds with management and other services until their liquidation. While we do not expect to receive meaningful fees for providing these services, we do not believe that the ongoing administration of the funds will materially interfere with the firm's operations or generate any material costs for the firm.

Public Markets

Through our Public Markets segment, we manage a specialty finance company and a number of investment funds, structured finance vehicles and separately managed accounts that invest capital in liquid credit strategies, such as leveraged loans and high yield bonds, and less liquid credit products such as mezzanine debt and capital solutions investments. These funds, vehicles and accounts are managed by Kohlberg Kravis Roberts & Co. (Fixed Income) LLC, an SEC registered investment advisor. We intend to continue to grow this business by leveraging our global investment platform, experienced investment professionals and ability to adapt our investment strategies to different market conditions to capitalize on investment opportunities that may arise at every level of the capital structure. As an example, we believe that mezzanine financing, a hybrid of debt and equity financing, is an attractive form of investing, and interest in mezzanine products relates to the favorable position of mezzanine in the capital structure and its historically attractive risk-reward characteristics. We believe that expanding into mezzanine products will allow us to take advantage of synergies with our existing fixed income and private equity businesses. As of December 31, 2009, this segment had $13.4 billion of AUM, including $0.9 billion in KKR Financial Holdings LLC, $8.1 billion in structured finance vehicles and $4.4 billion in separately managed accounts and fixed income funds.

Table of Contents

The following chart presents the growth in the AUM of our Public Markets segment from the commencement of operations in August 2004 through December 31, 2009.

Public Markets Assets Under Management(1)

($ in billions)

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(1) Assets under management are presented pro forma for the Combination Transaction and, therefore, exclude the net asset value of KKR Guernsey and its commitments to our investment funds.

Experience

We launched our Public Markets business in August 2004. In connection with the formation of this business, we hired additional investment professionals with significant experience in evaluating and managing debt investments, including investments in corporate loans and debt securities, structured products and other fixed income instruments, and built out an investment platform for identifying, assessing, executing, monitoring and realizing investments.

Portfolio

The following charts present information concerning the amount of capital currently invested by our Public Markets segment across all of the vehicles that it manages as of December 31, 2009. The current investment portfolio primarily consists of high yield corporate debt, including leveraged loans

Table of Contents

and high yield bonds. We expect mezzanine securities and capital solutions related investments to represent a larger percentage of investments in the future.

Investment Composition **Seniority**

Performance

We generally review our performance in the Public Markets segment by investment strategy as opposed to by investor vehicle. The following chart presents information on the returns of our key strategies from inception to December 31, 2009.

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

(1)

The Benchmarks referred to herein include the S&P/LSTA Leveraged Loan Index (the "S&P/LSTA Loan Index") and the Merrill Lynch High Yield Master II Index (the "ML HY Master II Index" and, together with the S&P/LSTA Loan Index, the "Indices"). The S&P/LSTA Loan Index is an index that comprises all loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: (i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; (ii) secured; (iii) U.S. dollar denominated;

Table of Contents

(iv) minimum term of one year at inception; and (v) minimum initial spread of LIBOR plus 1.25%. The ML HY Master II Index is a market-value weighted index of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. "Yankee" bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the ML HY Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US$100 million. In addition, issues having a credit rating lower than BBB3, but not in default, are also included. The indices do not reflect the reinvestment of income or dividends and the indices are not subject to management fees, incentive allocations or expenses. It is not possible to invest directly in unmanaged indices.

(2) The Secured Credit Levered composite inception data is as of September 1, 2004 annualized performance calculation treats 2004 as a full year of investing. Performance information labeled "Secured Credit" herein represents a combination of performance of KKR's Secured Credit Levered composite calculated on an unlevered basis and KKR's Secured Credit composite. KKR's Secured Credit Levered composite has an investment objective that allows it to invest in assets other than senior secured term loans and high yield securities, which includes asset-backed securities, commercial mortgage-backed securities, preferred stock, public equity, private equity and certain freestanding derivatives. In addition, KKR's Secured Credit Levered composite has employed leverage in its respective portfolios as part of its investment strategy. Gains realized with borrowed funds may cause returns to increase at a faster rate than would be the case without borrowings. If, however, investment results fail to cover the principal, interest and other costs of borrowings, returns could also decrease faster than if there had been no borrowings. Accordingly, the unlevered returns contained herein do not reflect the actual returns, and are not intended to be indicative of the future results of KKR's Secured Credit Levered composite. It is not expected that KKR's Secured Credit Levered composite will achieve comparable results. In designing this product, a blended composite was created against which to evaluate performance and is based on an approximate asset mix similar to that of the Secured Credit strategy. The Benchmark used for purposes of comparison for the Secured Credit strategy presented herein is based on 90% S&P/LSTA Loan Index and 10% ML HY Master II Index. There are differences, in some cases, significant differences, between KKR's Secured Credit Levered composite investments and the investments included in the Indices. For instance, KKR's Secured Credit Levered composite may invest in securities that have a greater degree of risk and volatility, as well as liquidity risk, than those securities contained in the Indices.

(3) In designing this product, a blended composite was created against which to evaluate performance and is based on an approximate asset mix similar to that of the Bank Loan Plus High Yield strategy. The Benchmark used for purposes of comparison for the Bank Loan Plus High Yield strategy presented herein is based on 65% S&P/LSTA Loan Index and 35% ML HY Master II Index.

(4) In designing this product, a blended composite was created against which to evaluate performance and is based on an approximate asset mix similar to that of the Flexible Credit strategy. The Benchmark used for purposes of comparison for the Flexible Credit strategy presented herein is based on 50% S&P/LSTA Loan Index and 50% ML HY Master II Index.

Investment Approach

Our approach to making debt investments focuses on creating investment portfolios that generate attractive risk-adjusted returns on invested capital by allocating capital across multiple asset classes, selecting high-quality investments that may be made at attractive prices, applying rigorous standards of due diligence when making investment decisions, subjecting investments to regular monitoring and oversight and making buy and sell decisions based on price targets and relative value parameters. The

Table of Contents

firm employs both "top-down" and "bottom-up" analyses when making these types of investments. Our top-down analysis involves a macro analysis of relative asset valuations, long-term industry trends, business cycles, interest rate expectations, credit fundamentals and technical factors to target specific industry sectors and asset classes in which to invest. Our bottom-up analysis includes a rigorous analysis of the credit fundamentals and capital structure of each credit considered for investment and a thorough review of the impact of credit and industry trends and dynamics and dislocation events on such potential investment.

Sourcing and Selecting Investments

We source debt investment opportunities through a variety of channels, including internal deal generation strategies and the firm's global network of contacts at major companies, corporate executives, commercial and investment banks, financial intermediaries, other private equity sponsors and other investment and advisory institutions. We are also regularly provided with opportunities to invest where appropriate in debt that our portfolio companies incur in connection with our private equity investments. These opportunities may be significant. As of December 31, 2009, these vehicles and accounts held investments with a face value of $4.7 billion in senior and subordinated corporate loans, bridge loans and debt securities of our portfolio companies.

Due Diligence and the Investment Decision

Once a potential investment has been identified, our investment professionals screen the opportunity and make a preliminary determination concerning whether we should proceed with a due diligence investigation. When evaluating the suitability of a debt investment, we employ a relative value framework and subject the investment to a rigorous credit analysis. This review considers, among other things, pricing terms, expected returns, credit structure, credit ratings, historical and projected financial data, the issuer's competitive position, the quality and track record of the issuer's management team, margin stability and industry and company trends. Investment professionals use the services of outside advisors and industry experts as appropriate to assist them in the due diligence process and, when relevant and permitted, leverage the knowledge and experience of our private equity professionals. A dedicated debt investment committee monitors all due diligence practices and must approve an investment before it may be made.

Monitoring Investments

We monitor our portfolios of debt investments using daily, quarterly and annual analyses. Daily analyses include morning market meetings, industry and company pricing runs, industry and company reports and discussions with the firm's private equity investment professionals on an as-needed basis. Quarterly analyses include the preparation of quarterly operating results, reconciliations of actual results to projections and updates to financial models (baseline and stress cases). Annual analyses involve preparing annual credit memoranda, conducting internal audits and testing compliance with monitoring and documentation requirements.

Public Markets Vehicles

Separately Managed Accounts and Fixed Income Funds

Beginning in 2008, we created a managed account platform that enables the firm to tailor an investment program to meet the specific risk, return and investment objectives of individual institutional investors. As of December 31, 2009, the AUM of this platform totaled $4.4 billion, consisting of committed capital and the net asset value of invested capital. We actively seek to raise additional capital from both new and existing investors, including investors in our private equity and fixed income funds. For managing these accounts, we are entitled to receive either fees or a combination of fees and carried interest, depending on the nature of the investment program. We also manage certain fixed income funds that make investments primarily in corporate debt and marketable and non-marketable equity securities. The amount of fees earned in connection with the management of these funds is not material to our operations.

KFN

KKR Financial Holdings LLC (NYSE: KFN), or KFN, is a New York Stock Exchange-listed specialty finance company that commenced operations in July 2004. Its majority owned subsidiaries finance and invest in a broad range of debt investments, including residential mortgage-backed securities, syndicated corporate debt as well as special situations opportunities, which range from private debt instruments to mezzanine and distressed opportunities. We serve as the external manager of KFN under a management agreement and are entitled to receive a monthly base management fee equal to an annual rate of 1.75% of KFN's equity as defined in the agreement and a quarterly incentive fee that is generally equal to the amount by which KFN's net income (before incentive fees and share-based compensation expenses) per weighted average share outstanding for the quarter exceeds a specified hurdle rate. The management agreement may be terminated only in limited circumstances and, except for a termination arising from certain events of cause, upon the payment of a termination fee to KKR.

Structured Finance Vehicles

Beginning in 2005, we began managing structured finance vehicles in the form of collateralized loan obligation transactions ("CLOs"). CLOs are typically structured as bankruptcy-remote, special purpose investment vehicles which acquire, monitor and, to varying degrees, manage a pool of fixed-income assets. KFN conducts its business primarily through its holdings of a majority of the voting securities of, and certain other interests in, such CLOs. The CLOs serve as long term financing for fixed income investments and as a way to minimize refinancing risk, minimize maturity risk and secure a fixed cost of funds over an underlying market interest rate for KFN and the private fixed income funds. As of December 31, 2009, KKR had $8.1 billion of AUM in structured finance vehicles.

Capital Markets and Principal Activities

Our Capital Markets and Principal Activities segment combines the assets we acquired in the Combination Transaction with our global capital markets business. Our capital markets business supports our firm, our portfolio companies and our clients by providing tailored capital markets advice and developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing. Our capital markets services include arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets services. To allow us to carry out these activities, we are registered or authorized to carry out certain broker-dealer activities in various countries in North America, Europe and Asia.

The assets that we acquired in the Combination Transaction have provided us with a significant source of capital to further grow and expand our business, increase our participation in our existing portfolio of businesses and further align our interests with those of our investors and other stakeholders. We believe that the market experience and skills of professionals in our capital markets business and the investment expertise of professionals in our Private Markets and Public Markets segments will allow us to continue to grow and diversify this asset base over time.

Table of Contents

As of December 31, 2009, the segment had over $4.1 billion of investments at fair value. The following charts present information concerning our principal assets by type, geography and industry as of December 31, 2009.

Investments By Type

Investments By Geography

Investments By Industry

Client & Partner Group

We have developed our Client & Partner Group over the past several years to better service our existing investors and to source new investor relationships. The group is responsible for raising capital for us globally across all products, expanding our client relationships across asset classes and across types of investors, developing products to meet our clients' needs, and servicing existing investors and products.

Table of Contents

The following charts detail our investor base by type and geography as of December 31, 2009.

Investor Base By Type(1) **Investor Base By Geography(1)**

(1) Based on third party dollars committed to private equity funds (European Fund and onward), private equity co-investment vehicles and Public Markets' separately managed accounts.

Competition

We compete with other asset managers for both investors and investment opportunities. The firm's competitors consist primarily of sponsors of public and private investment funds, business development companies, investment banks, commercial finance companies and operating companies acting as strategic buyers. We believe that competition for investors is based primarily on investment performance; business reputation; the duration of relationships with investors; the quality of services provided to investors; pricing; and the relative attractiveness of the types of investments that have been or are to be made. We believe that competition for investment opportunities is based primarily on the pricing, terms and structure of a proposed investment and certainty of execution.

Some of the entities that we compete with as an alternative asset manager have greater financial, technical, marketing and other resources and more personnel than us and, in the case of some asset classes, longer operating histories, more established relationships or greater experience. Several of our competitors also have recently raised, or are expected to raise, significant amounts of capital and have investment objectives that are similar to the investment objectives of our funds, which may create additional competition for investment opportunities. Some of these competitors may also have lower costs of capital and access to funding sources that are not available to us, which may create competitive advantages for them. In addition, some of these competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider range of investments and to bid more aggressively than us for investments. Strategic buyers may also be able to achieve synergistic cost savings or revenue enhancements with respect to a targeted portfolio company, which may provide them with a competitive advantage in bidding for such investments.

We expect to compete as a capital markets business primarily with investment banks and independent broker-dealers in the United States, Europe, Asia, Australia and the Middle East and intend to focus our capital markets activities initially on the firm, our portfolio companies and investors. While we generally target customers with whom we have existing relationships, those customers also have similar relationships with the firm's competitors, many of whom will have access to competing securities transactions, greater financial, technical or marketing resources or more established reputations than us. The limited operating history of our capital markets business could make it difficult for us to compete with established broker-dealers, participate in capital markets transactions of issuers or successfully grow the firm's capital markets business over time.

Table of Contents

Employees

As of December 31, 2009, we employed approximately 600 people worldwide:

Investment Professionals	158
Other Professionals	204
Support Staff	220
Total Employees	**582**
KKR Capstone	58
Senior Advisors	28
Total Employees and Advisors	**668**

Investment Professionals

Our 158 investment professionals come from diverse backgrounds in private equity, fixed income and infrastructure and include executives with operations, strategic consulting, risk management, liability management and finance experience. As a group, these professionals provide us with a powerful global team for identifying attractive investment opportunities, creating value and generating superior returns.

Other Professionals

Our 204 other professionals come from diverse backgrounds in capital markets, capital raising, client servicing, public affairs, finance, tax, legal, human resources, and information technology. As a group, these professionals provide us with a strong team for performing capital markets activities, servicing our existing investors and creating relationships with new investors globally. Additionally, a majority of these other professionals are responsible for supporting the global infrastructure of KKR.

KKR Capstone

We have developed an institutionalized process for creating value in investments. As part of our effort, we utilize a team of 58 operating consultants at KKR Capstone and work exclusively with our investment professionals and portfolio company management teams. With executives in New York, Menlo Park, London and Hong Kong, KKR Capstone provides additional expertise for assessing investment opportunities and assisting managers of portfolio companies in defining strategic priorities and implementing operational changes. During the initial phases of an investment, KKR Capstone's work seeks to implement our thesis for value creation. Our operating consultants may assist portfolio companies in addressing top-line growth, cost optimization and efficient capital allocation and in developing operating and financial metrics. Over time, this work shifts to identifying challenges and taking advantage of business opportunities that arise during the life of an investment.

Senior Advisors

To complement the expertise of our investment professionals, we have retained a team of 28 senior advisors to provide us with additional operational and strategic insights. The responsibilities of senior advisors include serving on the boards of our portfolio companies, helping us evaluate individual investment opportunities and assisting portfolio companies with operational matters. These individuals include former chief executive officers, chief financial officers and chairmen of Fortune 500 companies, as well as other individuals who have held leading positions in major corporations and public agencies worldwide. Four of the senior advisors also participate on our portfolio management committee, which monitors the performance of our private equity investments.

Table of Contents

Regulation

Our operations are subject to regulation and supervision in a number of jurisdictions. The level of regulation and supervision to which we are subject varies from jurisdiction to jurisdiction and is based on the type of business activity involved. We, in conjunction with our outside advisors and counsel, seek to manage our business and operations in compliance with such regulation and supervision. The regulatory and legal requirements that apply to our activities are subject to change from time to time and may become more restrictive, which may make compliance with applicable requirements more difficult or expensive or otherwise restrict our ability to conduct our business activities in the manner in which they are now conducted. Changes in applicable regulatory and legal requirements, including changes in their enforcement, could materially and adversely affect our business and our financial condition and results of operations. As a matter of public policy, the regulatory bodies that regulate our business activities are responsible for safeguarding the integrity of the securities and financial markets and protecting investors who participate in those markets rather than protecting the interests of our unitholders.

United States

Regulation as an Investment Advisor

As an investment advisor, we are subject to the anti-fraud provisions of the Investment Advisers Act and to fiduciary duties derived from these provisions which apply to our relationships with our advisory clients, including funds that we manage. These provisions and duties impose restrictions and obligations on us with respect to our dealings with our investors and our investments, including for example restrictions on agency cross and principal transactions. We have not registered as an investment advisor, although Kohlberg Kravis Roberts & Co. L.P. and its wholly owned subsidiary Kohlberg Kravis Roberts & Co. (Fixed Income) LLC are registered as investment advisors under the Investment Advisers Act. As registered investment advisors, they are subject to periodic SEC examinations and other requirements under the Investment Advisers Act and related regulations primarily intended to benefit advisory clients. These additional requirements relate, among other things, to maintaining an effective and comprehensive compliance program, recordkeeping and reporting requirements and disclosure requirements. The Investment Advisers Act generally grants the SEC broad administrative powers, including the power to limit or restrict an investment advisor from conducting advisory activities in the event it fails to comply with federal securities laws. Additional sanctions that may be imposed for failure to comply with applicable requirements include the prohibition of individuals from associating with an investment advisor, the revocation of registrations and other censures and fines.

Regulation as a Broker-Dealer

KKR Capital Markets LLC, one of our subsidiaries, is registered as a broker-dealer with the SEC under the Exchange Act and with the New York Securities Commission under New York state securities laws, and is a member of the Financial Industry Regulatory Authority, or FINRA. A broker-dealer is subject to legal requirements covering all aspects of its securities business, including sales and trading practices, public and private securities offerings, use and safekeeping of customers' funds and securities, capital structure, record-keeping and retention and the conduct and qualifications of directors, officers, employees and other associated persons. These requirements include the SEC's "uniform net capital rule," which specifies the minimum level of net capital that a broker-dealer must maintain, requires a significant part of the broker-dealer's assets to be kept in relatively liquid form, imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing its capital and subjects any distributions or withdrawals of capital by a broker-dealer to notice requirements. These and other requirements also include rules that limit a broker-dealer's ratio of subordinated debt to equity in its regulatory capital composition, constrain a broker-dealer's ability

Table of Contents

to expand its business under certain circumstances and impose additional requirements when the broker-dealer participates in securities offerings of affiliated entities. Violations of these requirements may result in censures, fines, the issuance of cease-and-desist orders, revocation of licenses or registrations, the suspension or expulsion from the securities industry of the broker-dealer or its officers or employees or other similar consequences by regulatory bodies.

United Kingdom

KKR Capital Markets Limited, one of our subsidiaries, is authorized in the United Kingdom under the Financial Services and Markets Act 2000, or FSMA, and has permission to engage in a number of activities regulated under FSMA, including dealing as principal or agent and arranging deals in relation to certain types of specified investments and arranging the safeguarding and administration of assets. Kohlberg Kravis Roberts & Co. Limited, another one of our subsidiaries, is authorized in the United Kingdom under FSMA and has permission to engage in a number of regulated activities including advising on and arranging deals relating to corporate finance business in relation to certain types of specified investments. FSMA and related rules govern most aspects of investment business, including sales, research and trading practices, provision of investment advice, corporate finance, use and safekeeping of client funds and securities, regulatory capital, record keeping, margin practices and procedures, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures. The Financial Services Authority is responsible for administering these requirements and our compliance with them. Violations of these requirements may result in censures, fines, imposition of additional requirements, injunctions, restitution orders, revocation or modification of permissions or registrations, the suspension or expulsion from certain "controlled functions" within the financial services industry of officers or employees performing such functions or other similar consequences.

KKR Capital Markets Limited and Kohlberg Kravis Roberts & Co. Limited have passports under the single market directives to offer services cross border into all countries in the European Economic Area and Gibraltar.

Other Jurisdictions

KKR Capital Markets LLC is registered as an international dealer under the Securities Act (Ontario). This registration permits us to trade in non-Canadian equity and debt securities with certain types of investors located in Ontario, Canada. KKR Capital Markets Japan Limited, a joint-stock corporation, is a certified Class 2 broker-dealer registered under the Japanese Financial Instruments and Exchange Law of 2007.

KKR MENA Limited, a Dubai International Financial Centre company, is licensed to arrange credit or deals in investments, advise on financial products or credit, and manage assets, and is regulated by the Dubai Financial Services Authority.

KKR Australia Pty Limited is Australian financial services licensed and is authorized to provide advice on and deal in financial products for wholesale clients, and is regulated by the Australian Securities and Investments Commission.

KKR Capital Markets Asia Limited is licensed by the Securities and Futures Commission in Hong Kong to carry on dealing in securities and advising on securities regulated activities.

KKR Holdings Mauritius, Ltd. and KKR Account Adviser (Mauritius), Ltd. are unrestricted investment advisors authorized to manage portfolios of securities and give advice on securities transactions, and are regulated by the Financial Services Commission, Mauritius.

KKR Account Adviser (Mauritius), Ltd. is registered as a foreign institutional investor with the Securities and Exchange Board of India, or SEBI, under the SEBI (Foreign Institutional Investors)

Regulations, 1995, pursuant to which its activities are regulated by SEBI and it is permitted to make and/or manage investments into listed and/or unlisted securities of Indian issuers.

KKR Mauritius Direct Investments I, Ltd. is an investment holding company in Mauritius regulated by the Financial Services Commission, Mauritius.

Multiflow Financial Services Private Limited, a private limited company incorporated in India, is registered with the Reserve Bank of India as a non-deposit taking non-banking financial company, and is authorized to undertake lending and financing activities.

Afocelio Holdings Limited, a company incorporated in Cyprus, is registered with and regulated by the SEBI as a sub-account pursuant to which it can make investments into listed and/or unlisted securities of Indian issuers.

One of our fixed income funds is regulated as a mutual fund by the Cayman Islands Monetary Authority.

KKR Guernsey is authorized to do business in Guernsey and is subject to the ongoing supervision of the Guernsey Financial Services Commission and the Authority for the Financial Markets in the Netherlands.

Legal Proceedings

From time to time, we are involved in various legal proceedings, lawsuits and claims incidental to the conduct of our business. Our business is also subject to extensive regulation, which may result in regulatory proceedings against us. See "Risk Factors".

In August 1999, we and certain of our current and former personnel were named as defendants in an action brought in the Circuit Court of Jefferson County, Alabama, or the Alabama State Court, alleging breach of fiduciary duty and conspiracy in connection with the acquisition of Bruno's Inc. ("Bruno's"), one of our former portfolio companies, in 1995. The action was removed to the U.S Bankruptcy Court for the Northern District of Alabama. In April 2000, the complaint in this action was amended to further allege that we and others violated state law by fraudulently misrepresenting the financial condition of Bruno's in an August 1995 subordinated notes offering relating to the acquisition and in Bruno's subsequent periodic financial disclosures. In January 2001, the action was transferred to the U.S. District Court for the Northern District of Alabama. In August 2009, the action was consolidated with a similar action brought against the underwriters of the August 1995 subordinated notes offering, which is pending before the Alabama State Court. The plaintiffs are seeking compensatory and punitive damages, in an amount to be proven at trial, for losses they allegedly suffered in connection with their purchase of the subordinated notes. In September 2009, we and the other named defendants moved to dismiss the action. In April 2010, the Alabama State Court granted in part and denied in part the motion to dismiss. As suggested by the Alabama State Court, we plan to seek an immediate appeal of certain rulings made by the Alabama State Court when denying the motion to dismiss.

In 2005, we and certain of our current and former personnel were named as defendants in now-consolidated shareholder derivative actions in the Court of Chancery of the State of Delaware relating to Primedia Inc. ("Primedia"), one of our portfolio companies. These actions claim that the board of directors of Primedia breached its fiduciary duty of loyalty in connection with the redemption of certain shares of preferred stock in 2004 and 2005. The plaintiffs further allege that we benefited from these redemptions of preferred stock at the expense of Primedia and that we usurped a corporate opportunity of Primedia in 2002 by purchasing shares of its preferred stock at a discount on the open market while causing Primedia to refrain from doing the same. In February 2008, the special litigation committee formed by the board of directors of Primedia, following a review of plaintiffs' claims, filed a motion to dismiss the actions. In March 2010, plaintiffs filed an amended complaint, including additional allegations concerning our purchases of Primedia's preferred stock in 2002. Plaintiffs seek an accounting by defendants of unspecified damages to Primedia and an award of attorneys' fees and costs. Oral argument on the special litigation committee's motion to dismiss is scheduled for May 2010.

In December 2007, we, along with 15 other private equity firms and investment banks, were named as defendants in a purported class action complaint filed in the United States District Court for the District of Massachusetts by shareholders in certain public companies acquired by private equity firms since 2003. In August 2008, we, along with 16 other private equity firms and investment banks, were named as defendants in a purported consolidated amended class action complaint. The suit alleges that from mid-2003 defendants have violated antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. The complaint seeks injunctive relief on behalf of all persons who sold securities to any of the defendants in leveraged buyout transactions and specifically challenges nine transactions. The amended complaint also includes five purported sub-classes of plaintiffs seeking unspecified monetary damages and/or restitution with respect to five of the nine challenged transactions. The first stage of discovery concluded on or about April 15, 2010, and on April 26, 2010, plaintiffs filed a motion seeking an order allowing plaintiffs to proceed to the second stage of discovery. We, along with the other named defendants, intend to oppose plaintiffs' motion.

In August 2008, KFN, the members of the KFN's board of directors and certain of its current and former executive officers, including certain of KKR's current and former personnel, were named in a putative class action complaint filed by the Charter Township of Clinton Police and Fire Retirement System in the United States District Court for the Southern District of New York (the "Charter Litigation"). In March 2009, the lead plaintiff filed an amended complaint, which deleted as defendants the members of KFN's board of directors and named as individual defendants only KFN's former chief executive officer, KFN's former ch