KKR & Co. Inc.
Form 10-Q
November 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 30, 2018

Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the Transition period from to .
Commission File Number 001-34820

KKR & CO. INC.
(Exact name of Registrant as specified in its charter)

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

9 West 57th Street, Suite 4200
New York, New York 10019
Telephone: (212) 750-8300
(Address, zip code, and telephone number, including area code, of registrant's principal executive office.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No o

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

| | |
|---|---|
| Large accelerated filer ý | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company o |
| Emerging growth company o | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of November 1, 2018, there were 529,181,096 shares of Class A common stock of the registrant outstanding.

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KKR & CO. INC.

FORM 10-Q

For the Quarter Ended September 30, 2018

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), 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," the negative version of these words, other comparable words or other statements that do not relate strictly to historical or factual matters. Without limiting the foregoing, statements regarding the declaration and payment of dividends on common or preferred stock of KKR, the timing, manner and volume of repurchases of common stock pursuant to a repurchase program, and the expected synergies and benefits from acquisitions, reorganizations or strategic partnerships, may constitute forward-looking statements. 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 or cause the anticipated benefits and synergies from transactions to not be realized. We believe these factors include those described under the section entitled "Risk Factors" in this report, in our Annual Report on Form 10-K for the year ended December 31, 2017 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018. These factors should be read in conjunction with the other cautionary statements that are included in this report and in our other filings with the U.S. Securities and Exchange Commission (the "SEC"). We do not undertake any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

On July 1, 2018, we completed our conversion (the "Conversion") from a Delaware limited partnership named KKR & Co. L.P. into a Delaware corporation named KKR & Co. Inc.

In this report, references to "KKR," "we," "us" and "our" refer to (i) KKR & Co. Inc. and its subsidiaries following the Conversion and (ii) KKR & Co. L.P. and its subsidiaries prior to the Conversion, in each case, except where the context requires otherwise. KKR & Co. L.P. became listed on the New York Stock Exchange ("NYSE") on July 15, 2010. KKR Management Holdings L.P., KKR Fund Holdings L.P. and KKR International Holdings L.P. are together referred to in this report as 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." In connection with KKR's 6.75% Series A Preferred Stock ("Series A Preferred Stock") and 6.50% Series B Preferred Stock ("Series B Preferred Stock"), the KKR Group Partnerships have outstanding preferred units with economic terms designed to mirror those of the Series A Preferred Stock and Series B Preferred Stock, respectively. References to our Class A common stock, Series A Preferred Stock or Series B Preferred Stock for periods prior to the Conversion mean the common units, Series A preferred units and Series B preferred units of KKR & Co. L.P., respectively.

References to the "Class B Stockholder" are to KKR Management LLC, the holder of the sole share of our Class B common stock, and unless otherwise indicated, references to equity interests in KKR's business, or to percentage interests in KKR's business, reflect the aggregate equity interests in the KKR Group Partnerships and are net of amounts that have been allocated to our principals and other employees and non-employee operating consultants in respect of the carried interest from KKR's business as part of our "carry pool" and certain minority interests. References to "principals" are to our senior employees and non-employee operating consultants who hold interests in KKR's business through KKR Holdings L.P. ("KKR Holdings") and references to our "senior principals" are to our senior employees who hold interests in the Class B Stockholder entitling them to vote for the election of its directors.

References to "non-employee operating consultants" include employees of KKR Capstone, who are not employees of KKR. KKR Capstone refers to a group of entities that are owned and controlled by their senior management. KKR Capstone is not a subsidiary or affiliate of KKR. KKR Capstone operates under several consulting agreements with KKR and uses the "KKR" name under license from KKR.

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

We disclose certain financial measures in this report that are calculated and presented using methodologies other than in accordance with GAAP. We believe that providing these performance measures on a supplemental basis to our GAAP results is helpful to stockholders in assessing the overall performance of KKR's businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with GAAP, if available. We caution readers

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that these non-GAAP financial measures may differ from the calculations of other investment managers, and as a result, may not be comparable to similar measures presented by other investment managers. Reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP, where applicable, are included within Note 14 "Segment Reporting" to our condensed consolidated financial statements and under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Segment and Other Operating and Performance Measures" and "—Segment Balance Sheet."

This report uses the terms assets under management ("AUM"), fee paying assets under management ("FPAUM"), after-tax distributable earnings, fee related earnings ("FRE"), capital invested, syndicated capital and book value. You should note that our calculations of these financial measures and other financial measures may differ from the calculations of other investment managers and, as a result, our financial measures may not be comparable to similar measures presented by other investment managers. These and other financial measures are defined in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Segment and Other Operating and Performance Measures" and "—Segment Balance Sheet."

References to our "funds" or our "vehicles" refer to investment funds, vehicles and accounts advised, sponsored or managed by one or more subsidiaries of KKR, including collateralized loan obligations ("CLOs") and commercial real estate mortgage-backed securities ("CMBS") vehicles, unless the context requires otherwise. They do not include investment funds, vehicles or accounts of any hedge fund manager with which we have formed a strategic partnership where we have acquired a non-controlling interest.

Unless otherwise indicated, references in this report to our fully exchanged and diluted Class A common stock outstanding, or to our Class A common stock outstanding on a fully exchanged and diluted basis, reflect (i) actual Class A common stock outstanding, (ii) Class A common stock into which KKR Group Partnership Units not held by us are exchangeable pursuant to the terms of the exchange agreement described in this report, (iii) Class A common stock issuable in respect of exchangeable equity securities issued in connection with the acquisition of Avoca Capital ("Avoca"), all of which have been exchanged as of September 30, 2018, and (iv) Class A common stock issuable pursuant to any equity awards actually granted from the Amended and Restated KKR & Co. Inc. 2010 Equity Incentive Plan (our "Equity Incentive Plan"). Our fully exchanged and diluted Class A common stock outstanding does not include (i) Class A common stock available for issuance pursuant to our Equity Incentive Plan for which equity awards have not yet been granted and (ii) Class A common stock that we have the option to issue in connection with our acquisition of additional interests in Marshall Wace LLP (together with its affiliates, "Marshall Wace").

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KKR & CO. INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
(Amounts in Thousands, Except Share Data)

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Cash and Cash Equivalents | $2,264,875 | $1,876,687 |
| Cash and Cash Equivalents Held at Consolidated Entities | 963,777 | 1,802,372 |
| Restricted Cash and Cash Equivalents | 65,949 | 56,302 |
| Investments | 44,119,593 | 39,013,934 |
| Due from Affiliates | 682,007 | 554,349 |
| Other Assets | 2,247,747 | 2,531,075 |
| Total Assets | $50,343,948 | $45,834,719 |
| | | |
| Liabilities and Equity | | |
| Debt Obligations | $20,266,172 | $21,193,859 |
| Due to Affiliates | 252,547 | 323,810 |
| Accounts Payable, Accrued Expenses and Other Liabilities | 3,685,318 | 3,654,250 |
| Total Liabilities | 24,204,037 | 25,171,919 |
| | | |
| Commitments and Contingencies | | |
| | | |
| Redeemable Noncontrolling Interests | 1,070,575 | 610,540 |
| | | |
| Stockholders' Equity [1] | | |
| KKR & Co. L.P. Capital - Common Unitholders (486,174,736 common units issued and outstanding as of December 31, 2017) | — | 6,722,863 |
| Preferred Units (20,000,000 units issued and outstanding as of December 31, 2017) | — | 482,554 |
| Preferred Stock (20,000,000 shares issued and outstanding as of September 30, 2018) | 482,554 | — |
| Class A Common Stock (525,593,409 shares issued and outstanding as of September 30, 2018) | 5,256 | — |
| Class B Common Stock (1 share issued and outstanding as of September 30, 2018) | — | — |
| Class C Common Stock (303,106,993 shares issued and outstanding as of September 30, 2018) | 3,031 | — |
| Additional Paid-In Capital | 8,005,338 | — |
| Retained Earnings | 551,036 | — |
| Accumulated Other Comprehensive Income (Loss) | (40,448) | (19,481) |
| Total KKR & Co. Inc. Stockholders' Equity | 9,006,767 | 7,185,936 |
| Noncontrolling Interests | 16,062,569 | 12,866,324 |
| Total Equity | 25,069,336 | 20,052,260 |
| Total Liabilities and Equity | $50,343,948 | $45,834,719 |

(1) See Note 1 "Organization."

See notes to condensed consolidated financial statements.

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KKR & CO. INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED) (Continued)
(Amounts in Thousands)

The following presents the portion of the consolidated balances presented in the condensed consolidated statements of financial condition attributable to consolidated variable interest entities ("VIEs") as of September 30, 2018 and December 31, 2017. KKR's consolidated VIEs consist primarily of certain collateralized financing entities ("CFEs") holding collateralized loan obligations ("CLOs") commercial real estate mortgage-backed securities ("CMBS") and certain investment funds. With respect to consolidated VIEs, the following assets may only be used to settle obligations of these consolidated VIEs and the following liabilities are only the obligations of these consolidated VIEs. The noteholders, limited partners and other creditors of these VIEs have no recourse to KKR's general assets. Additionally, KKR has no right to the benefits from, nor does KKR bear the risks associated with, the assets held by these VIEs beyond KKR's beneficial interest therein and any income generated from the VIEs. There are neither explicit arrangements nor does KKR hold implicit variable interests that would require KKR to provide any material ongoing financial support to the consolidated VIEs, beyond amounts previously committed, if any.

| | September 30, 2018 | | |
|---|---|---|---|
| | Consolidated CFEs | Consolidated KKR Funds and Other Entities | Total |
| Assets | | | |
| Cash and Cash Equivalents Held at Consolidated Entities | $437,299 | $329,466 | $766,765 |
| Restricted Cash and Cash Equivalents | — | 43,486 | 43,486 |
| Investments | 13,293,505 | 14,924,306 | 28,217,811 |
| Due from Affiliates | — | 5,939 | 5,939 |
| Other Assets | 136,909 | 176,865 | 313,774 |
| Total Assets | $13,867,713 | $15,480,062 | $29,347,775 |
| | | | |
| Liabilities | | | |
| Debt Obligations | $12,645,610 | $720,720 | $13,366,330 |
| Accounts Payable, Accrued Expenses and Other Liabilities | 601,853 | 173,778 | 775,631 |
| Total Liabilities | $13,247,463 | $894,498 | $14,141,961 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Consolidated CFEs | Consolidated KKR Funds and Other Entities | Total |
| Assets | | | |
| Cash and Cash Equivalents Held at Consolidated Entities | $1,467,829 | $231,423 | $1,699,252 |
| Restricted Cash and Cash Equivalents | — | 21,255 | 21,255 |
| Investments | 15,573,203 | 9,408,967 | 24,982,170 |
| Due from Affiliates | — | 23,562 | 23,562 |
| Other Assets | 176,572 | 168,003 | 344,575 |
| Total Assets | $17,217,604 | $9,853,210 | $27,070,814 |
| | | | |
| Liabilities | | | |

| | | | |
|---|---|---|---|
| Debt Obligations | $ 15,586,216 | $ 770,350 | $ 16,356,566 |
| Accounts Payable, Accrued Expenses and Other Liabilities | 923,494 | 243,660 | 1,167,154 |
| Total Liabilities | $ 16,509,710 | $ 1,014,010 | $ 17,523,720 |

See notes to condensed consolidated financial statements.

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KKR & CO. INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(Amounts in Thousands, Except Share Data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | | | | |
| Fees and Other | $491,503 | $355,418 | $1,299,743 | $1,116,382 |
| Capital Allocation-Based Income | 638,163 | 394,234 | 1,274,149 | 1,416,825 |
| Total Revenues | 1,129,666 | 749,652 | 2,573,892 | 2,533,207 |
| Expenses | | | | |
| Compensation and Benefits | 560,434 | 368,513 | 1,331,070 | 1,234,317 |
| Occupancy and Related Charges | 15,250 | 15,267 | 44,787 | 44,150 |
| General, Administrative and Other | 164,406 | 146,467 | 475,884 | 421,522 |
| Total Expenses | 740,090 | 530,247 | 1,851,741 | 1,699,989 |
| Investment Income (Loss) | | | | |
| Net Gains (Losses) from Investment Activities | 666,731 | 52,004 | 2,256,118 | 893,065 |
| Dividend Income | 38,245 | 20,774 | 137,653 | 100,144 |
| Interest Income | 339,393 | 317,134 | 989,354 | 893,832 |
| Interest Expense | (211,081 ) | (211,959 ) | (634,521 ) | (597,403 ) |
| Total Investment Income (Loss) | 833,288 | 177,953 | 2,748,604 | 1,289,638 |
| Income (Loss) Before Taxes | 1,222,864 | 397,358 | 3,470,755 | 2,122,856 |
| Income Tax Expense (Benefit) | (129,405 ) | 18,420 | (50,804 ) | 77,500 |
| Net Income (Loss) | 1,352,269 | 378,938 | 3,521,559 | 2,045,356 |
| Net Income (Loss) Attributable to Redeemable Noncontrolling Interests | 12,236 | 20,876 | 19,894 | 64,196 |
| Net Income (Loss) Attributable to Noncontrolling Interests | 691,494 | 196,158 | 1,985,961 | 1,137,585 |
| Net Income (Loss) Attributable to KKR & Co. Inc. | 648,539 | 161,904 | 1,515,704 | 843,575 |
| Series A Preferred Stock Dividends | 5,822 | 5,822 | 17,466 | 17,466 |
| Series B Preferred Stock Dividends | 2,519 | 2,519 | 7,557 | 7,557 |
| Net Income (Loss) Attributable to KKR & Co. Inc. Class A Common Stockholders | $640,198 | $153,563 | $1,490,681 | $818,552 |
| Net Income (Loss) Attributable to KKR & Co. Inc. Per Share of Class A Common Stock | | | | |
| Basic | $1.22 | $0.33 | $2.94 | $1.76 |
| Diluted | $1.17 | $0.30 | $2.83 | $1.63 |
| Weighted Average Shares of Class A Common Stock Outstanding | | | | |
| Basic | 525,240,214 | 471,758,886 | 507,981,387 | 463,941,084 |
| Diluted | 545,672,953 | 506,873,177 | 528,466,390 | 501,615,635 |

See notes to condensed consolidated financial statements.

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KKR & CO. INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(Amounts in Thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net Income (Loss) | $1,352,269 | $378,938 | $3,521,559 | $2,045,356 |
| Other Comprehensive Income (Loss), Net of Tax: | | | | |
| Foreign Currency Translation Adjustments | (34,075) | 10,001 | (57,988) | 47,097 |
| Comprehensive Income (Loss) | 1,318,194 | 388,939 | 3,463,571 | 2,092,453 |
| Less: Comprehensive Income (Loss) Attributable to Redeemable Noncontrolling Interests | 12,236 | 20,876 | 19,894 | 64,196 |
| Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interests | 667,043 | 199,904 | 1,946,834 | 1,161,651 |
| Comprehensive Income (Loss) Attributable to KKR & Co. Inc. | $638,915 | $168,159 | $1,496,843 | $866,606 |

See notes to condensed consolidated financial statements.

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KKR & CO. INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
(Amounts in Thousands, Except Share Data)

The statements below for the nine months ended September 30, 2017 and the six months ended June 30, 2018 represent KKR & Co. Inc. as a partnership prior to the Conversion:

| | KKR & Co. L.P. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common Units | Capital - Common Unitholders | Accumulated Other Comprehensive Income (Loss) | Total Capital - Common Units | Capital - Series A Preferred Units | Capital - Series B Preferred Units | Noncontrolling Interests | Total Equity | Redeema Noncontr Interests |
| Balance at January 1, 2017 | 452,380,335 | $5,506,375 | $(49,096) | $5,457,279 | $332,988 | $149,566 | $10,545,902 | $16,485,735 | $632,348 |
| Net Income (Loss) | | 818,552 | | 818,552 | 17,466 | 7,557 | 1,137,585 | 1,981,160 | 64,196 |
| Other Comprehensive Income (Loss)-Foreign Currency Translation (Net of Tax) | | | 23,031 | 23,031 | | | 24,066 | 47,097 | |
| Changes in Consolidation | | | | — | | | (71,657) | (71,657) | (315,057 |
| Transfer of interests under common control (See Note 15 "Equity") | | 12,269 | (1,988) | 10,281 | | | (10,281) | — | |
| Exchange of KKR Holdings L.P. Units and Other Securities to KKR & Co. L.P. Common Units | 14,524,298 | 198,970 | (1,615) | 197,355 | | | (197,355) | — | |
| Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and Other | | (8,093) | 498 | (7,595) | | | | (7,595) | |
| Net Delivery of Common Units - Equity Incentive Plan | 6,229,754 | (37,304) | | (37,304) | | | | (37,304) | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Equity-Based and Other Non-Cash Compensation | | 149,840 | | 149,840 | | | 127,864 | 277,704 | |
| Capital Contributions | | | | — | | | 2,486,848 | 2,486,848 | 189,172 |
| Capital Distributions | | (230,785 ) | | (230,785 ) | (17,466 ) | (7,557 ) | (1,610,880 ) | (1,866,688 ) | (525 |
| Balance at September 30, 2017 | 473,134,387 | $6,409,824 | $(29,170) | $6,380,654 | $332,988 | $149,566 | $12,432,092 | $19,295,300 | $570,134 |

| | KKR & Co. L.P. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common Units | Capital - Common Unitholders | Accumulated Other Comprehensive Income (Loss) | Total Capital - Common Units | Capital - Series A Preferred Units | Capital - Series B Preferred Units | Noncontrolling Interests | Total Equity | Redeema Noncont Interests |
| Balance at January 1, 2018 | 486,174,736 | $6,722,863 | $(19,481) | $6,703,382 | $332,988 | $149,566 | $12,866,324 | $20,052,260 | $610,54 |
| Net Income (Loss) | | 850,483 | | 850,483 | 11,644 | 5,038 | 1,294,467 | 2,161,632 | 7,658 |
| Other Comprehensive Income (Loss)- Foreign Currency Translation (Net of Tax) | | | (9,237 ) | (9,237 ) | | | (14,676 ) | (23,913 ) | |
| Changes in Consolidation | | | | — | | | 370,307 | 370,307 | |
| Exchange of KKR Holdings L.P. Units and Other Securities to KKR & Co. L.P. Common Units | 32,722,098 | 507,470 | (1,998 ) | 505,472 | | | (505,472 ) | — | |
| Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and Other | | 6,448 | 17 | 6,465 | | | | 6,465 | |
| Net Delivery of Common Units - Equity Incentive Plan | 7,652,340 | (53,439 ) | | (53,439 ) | | | | (53,439 ) | |
| Equity-Based and Other Non-Cash | | 125,994 | | 125,994 | | | 61,942 | 187,936 | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Compensation Unit Repurchases | (2,207,300) | (52,212) | | (52,212) | | | | (52,212) | |
| Capital Contributions | | | | — | | | 2,410,722 | 2,410,722 | 349,451 |
| Capital Distributions | | (167,078) | | (167,078) | (11,644) | (5,038) | (1,550,955) | (1,734,715) | (5,502 |
| Balance at June 30, 2018 | 524,341,874 | $7,940,529 | $(30,699) | $7,909,830 | $332,988 | $149,566 | $14,932,659 | $23,325,043 | $962,14 |

See notes to condensed consolidated financial statements.

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KKR & CO. INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (Continued)
(Amounts in Thousands, Except Share Data)

The statement below represents KKR & Co. Inc. as a corporation subsequent to the Conversion for the three months ended September 30, 2018:

| | Three Months Ended September 30, 2018 | |
|---|---|---|
| | Amounts | Shares |
| KKR & Co. L.P. Partners' Capital - Common Unitholders | | |
| Beginning of Period | $7,940,529 | 524,341,874 |
| Reclassifications resulting from the Conversion | (7,940,529) | (524,341,874) |
| End of Period | — | — |
| Preferred Units | | |
| Beginning of Period | 482,554 | 20,000,000 |
| Reclassifications resulting from the Conversion | (482,554) | (20,000,000) |
| End of Period | — | — |
| Preferred Stock | | |
| Beginning of Period | — | — |
| Reclassifications resulting from the Conversion | 482,554 | 20,000,000 |
| End of Period | 482,554 | 20,000,000 |
| Class A Common Stock | | |
| Beginning of Period | — | — |
| Reclassifications resulting from the Conversion | 5,243 | 524,341,874 |
| Exchange of KKR Holdings Units and Class C Common Stock | 25 | 2,402,569 |
| Repurchases of Class A Common Stock | (12) | (1,151,034) |
| End of Period | 5,256 | 525,593,409 |
| Class B Common Stock | | |
| Beginning of Period | — | — |
| Issuance of Class B Common Stock resulting from the Conversion | — | 1 |
| End of Period | — | 1 |
| Class C Common Stock | | |
| Beginning of Period | — | — |
| Issuance of Class C Common Stock resulting from the Conversion | 3,041 | 304,107,762 |
| Exchange of Class C Common Stock to Class A Common Stock | (10) | (1,000,769) |
| End of Period | 3,031 | 303,106,993 |
| Additional Paid-In Capital | | |
| Beginning of Period | — | |
| Reclassifications resulting from the Conversion | 7,932,245 | |
| Exchange of KKR Holdings Units and Class C Common Stock | 48,844 | |
| Tax Effects Resulting from Exchange of KKR Holdings Units and Other | (7,114) | |
| Repurchases of Class A Common Stock | (28,438) | |
| Equity-Based Compensation | 59,801 | |
| End of Period | 8,005,338 | |
| Retained Earnings | | |
| Beginning of Period | — | |
| Net Income (Loss) Attributable to KKR & Co. Inc. | 648,539 | |
| Preferred Stock Dividends | (8,341) | |

| | |
|---|---|
| Common Stock Dividends | (89,162 ) |
| End of Period | 551,036 |
| Accumulated Other Comprehensive Income (Loss) | |
| Beginning of Period | (30,699 ) |
| Foreign Currency Translation | (9,624 ) |
| Exchange of KKR Holdings Units to Class A Common Stock | (145 ) |
| Tax Effects Resulting from Exchange of KKR Holdings Units | 20 |
| End of Period | (40,448 ) |
| Total KKR & Co. Inc. Stockholders' Equity | 9,006,767 |
| Noncontrolling Interests (See Note 15 "Equity") | 16,062,569 |
| Total Equity | $25,069,336 |

See notes to condensed consolidated financial statements.

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KKR & CO. INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in Thousands)

| | Nine Months Ended September 30, 2018 | 2017 |
|---|---|---|
| Operating Activities | | |
| Net Income (Loss) | $3,521,559 | $2,045,356 |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | |
| Equity-Based and Other Non-Cash Compensation | 263,230 | 271,226 |
| Net Realized (Gains) Losses on Investments | (426,220) | 2,662 |
| Change in Unrealized (Gains) Losses on Investments | (1,829,898) | (895,727) |
| Capital Allocation-Based Income | (1,274,149) | (1,416,825) |
| Other Non-Cash Amounts | (29,739) | 15,534 |
| Cash Flows Due to Changes in Operating Assets and Liabilities: | | |
| Change in Consolidation and Other | — | (2,244) |
| Change in Due from / to Affiliates | (216,665) | (230,948) |
| Change in Other Assets | 205,210 | (66,260) |
| Change in Accounts Payable, Accrued Expenses and Other Liabilities | 731,510 | 1,176,047 |
| Investments Purchased | (26,806,751) | (29,464,933) |
| Proceeds from Investments | 20,621,866 | 25,981,898 |
| Net Cash Provided (Used) by Operating Activities | (5,240,047) | (2,584,214) |
| | | |
| Investing Activities | | |
| Purchases of Fixed Assets | (69,954) | (70,849) |
| Development of Oil and Natural Gas Properties | — | (1,041) |
| Proceeds from Sale of Oil and Natural Gas Properties | 26,630 | — |
| Net Cash Provided (Used) by Investing Activities | (43,324) | (71,890) |
| | | |
| Financing Activities | | |
| Preferred Stock Dividends | (25,023) | (25,023) |
| Common Stock Dividends | (256,240) | (230,785) |
| Distributions to Redeemable Noncontrolling Interests | (10,189) | (525) |
| Contributions from Redeemable Noncontrolling Interests | 450,330 | 189,172 |
| Distributions to Noncontrolling Interests | (2,191,227) | (1,610,880) |
| Contributions from Noncontrolling Interests | 3,537,037 | 2,482,649 |
| Net Delivery of Class A Common Stock (Equity Incentive Plan) | (53,439) | (37,304) |
| Repurchases of Class A Common Stock | (80,662) | — |
| Proceeds from Debt Obligations | 11,429,320 | 8,848,735 |
| Repayment of Debt Obligations | (7,893,904) | (7,557,245) |
| Financing Costs Paid | (36,572) | (8,550) |
| Net Cash Provided (Used) by Financing Activities | 4,869,431 | 2,050,244 |
| | | |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (26,820) | 70,521 |
| | | |
| Net Increase/(Decrease) in Cash, Cash Equivalents and Restricted Cash | (440,760) | (535,339) |

| | | |
|---|---|---|
| Cash, Cash Equivalents and Restricted Cash, Beginning of Period | 3,735,361 | 4,345,815 |
| Cash, Cash Equivalents and Restricted Cash, End of Period | $3,294,601 | $3,810,476 |

See notes to condensed consolidated financial statements.

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KKR & CO. INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)
(Amounts in Thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Supplemental Disclosures of Cash Flow Information | | |
| Payments for Interest | $582,148 | $577,428 |
| Payments for Income Taxes | $48,891 | $34,633 |
| Supplemental Disclosures of Non-Cash Investing and Financing Activities | | |
| Equity-Based and Other Non-Cash Contributions | $273,274 | $277,704 |
| Non-Cash Contributions from Noncontrolling Interests | $— | $4,199 |
| Debt Obligations - Net Gains (Losses), Translation and Other | $378,291 | $(460,740) |
| Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of Class A Common Stock | $(629) | $(7,595) |
| Gain on Sale of Oil and Natural Gas Properties | $15,224 | $— |
| | | |
| Change in Consolidation and Other | | |
| Investments | $(3,054,090) | $(174,906) |
| Due From Affiliates | $— | $(3,536) |
| Other Assets | $(114,770) | $(298,097) |
| Debt Obligations | $(4,049,685) | $— |
| Accounts Payable, Accrued Expenses and Other Liabilities | $197,874 | $(114,573) |
| Noncontrolling Interests | $370,307 | $(71,657) |
| Redeemable Noncontrolling Interests | $— | $(315,057) |
| Gain on Asset Contribution | $312,644 | $— |

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Reconciliation to the Condensed Consolidated Statements of Financial Condition | | |
| Cash and Cash Equivalents | $2,264,875 | $1,876,687 |
| Cash and Cash Equivalents Held at Consolidated Entities | 963,777 | 1,802,372 |
| Restricted Cash and Cash Equivalents | 65,949 | 56,302 |
| Cash, Cash Equivalents and Restricted Cash, End of Period | $3,294,601 | $3,735,361 |

See notes to condensed consolidated financial statements.

KKR & CO. INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(All Amounts in Thousands, Except Unit and Share Data, and Except Where Noted)

1. ORGANIZATION

KKR & Co. Inc., together with its subsidiaries ("KKR"), is a leading global investment firm that manages multiple alternative asset classes including private equity, energy, infrastructure, real estate and credit, with strategic partners that manage hedge funds. KKR aims to generate attractive investment returns for its fund investors by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation with KKR's portfolio companies. KKR invests its own capital alongside the capital it manages for fund investors and provides financing solutions and investment opportunities through its capital markets business.

On July 1, 2018, KKR & Co. L.P. converted from a Delaware limited partnership to a Delaware corporation named KKR & Co. Inc. (the "Conversion"). Because the Conversion became effective on July 1, 2018, the prior period amounts in the accompanying condensed consolidated financial statements as of December 31, 2017, for the nine months ended September 30, 2017 and for the six months ended June 30, 2018, reflect KKR as a limited partnership and not a corporation. In this report, references to KKR & Co. Inc. for periods prior to the Conversion mean KKR & Co. L.P., and references to KKR's Class A common stock, Series A Preferred Stock and Series B Preferred Stock for periods prior to the Conversion mean common units, Series A preferred units and Series B preferred units of KKR & Co. L.P., respectively, in each case, except where the context requires otherwise. As a result of the Conversion, the financial impact to the condensed consolidated financial statements contained herein consisted of (i) reclassifications from partnership equity accounts to equity accounts reflective of a corporation and (ii) a partial step-up in the tax basis of certain assets resulting in the recognition of a net income tax benefit. See Note 15 "Equity" for the impact of the Conversion on KKR's equity accounts and Note 11 "Income Taxes" for the impact of the Conversion on KKR's income taxes.

In connection with the Conversion, a wholly-owned subsidiary of KKR & Co. Inc., KKR Group Holdings Corp., became (i) a general partner of KKR Fund Holdings L.P. ("Fund Holdings") and KKR International Holdings L.P. ("International Holdings") and (ii) the sole stockholder of KKR Management Holdings Corp. (the general partner of KKR Management Holdings L.P. ("Management Holdings")) and KKR Fund Holdings GP Limited (the other general partner of Fund Holdings and International Holdings). In addition, certain wholly-owned subsidiaries of KKR & Co. Inc., namely KKR Group Holdings L.P. ("Group Holdings"), KKR Group Limited (the general partner of Group Holdings), KKR Subsidiary Corp. and KKR Subsidiary Partnership L.P., were either merged into another wholly-owned subsidiary of KKR & Co. Inc. or entered into a plan of dissolution. Fund Holdings, Management Holdings and International Holdings are collectively referred to as the "KKR Group Partnerships."

KKR & Co. Inc. both indirectly controls the KKR Group Partnerships and indirectly holds Class A partner units in each KKR Group Partnership (collectively, "KKR Group Partnership Units") representing economic interests in KKR's business. The remaining KKR Group Partnership Units are held by KKR Holdings L.P. ("KKR Holdings"), which is not a subsidiary of KKR & Co. Inc. As of September 30, 2018, KKR & Co. Inc. held approximately 63.4% of the KKR Group Partnership Units and principals through KKR Holdings held approximately 36.6% of the KKR Group Partnership Units. The percentage ownership in the KKR Group Partnerships will continue to change as KKR Holdings and/or principals exchange units in the KKR Group Partnerships for shares of Class A common stock of KKR & Co. Inc. or when KKR & Co. Inc. otherwise issues or repurchases shares of Class A common stock of KKR & Co. Inc. The KKR Group Partnerships also have outstanding equity interests that provide for the carry pool and preferred units with economic terms that mirror the preferred stock issued by KKR & Co. Inc.

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Notes to Condensed Consolidated Financial Statements (Continued)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of KKR & Co. Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the instructions to Form 10-Q. The condensed consolidated financial statements (referred to hereafter as the "financial statements"), including these notes, are unaudited and exclude some of the disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) such that the financial statements are presented fairly and that estimates made in preparing the financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The December 31, 2017 condensed consolidated balance sheet data was derived from audited consolidated financial statements included in KKR’s Annual Report on Form 10-K for the year ended December 31, 2017, which include all disclosures required by GAAP. These financial statements should be read in conjunction with the audited consolidated financial statements included in KKR’s Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission ("SEC").

KKR consolidates the financial results of the KKR Group Partnerships and their consolidated entities, which include the accounts of KKR's investment management and capital markets companies, the general partners of certain unconsolidated investment funds, general partners of consolidated investment funds and their respective consolidated investment funds and certain other entities including CFEs. References in the accompanying financial statements to "principals" are to KKR's senior employees and non-employee operating consultants who hold interests in KKR's business through KKR Holdings.
All intercompany transactions and balances have been eliminated.

### Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and investment income (loss) during the reporting periods. Such estimates include but are not limited to (i) the determination of the income tax provision and (ii) the valuation of investments and financial instruments. Actual results could differ from those estimates, and such differences could be material to the financial statements.

### Principles of Consolidation

The types of entities KKR assesses for consolidation include (i) subsidiaries, including management companies, broker-dealers and general partners of investment funds that KKR manages, (ii) entities that have all the attributes of an investment company, like investment funds, (iii) CFEs and (iv) other entities, including entities that employ non-employee operating consultants. Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to its consolidation policy, KKR first considers whether an entity is considered a VIE and therefore whether to apply the consolidation guidance under the VIE model. Entities that do not qualify as VIEs are assessed for consolidation as voting interest entities ("VOEs") under the voting interest model.

KKR's funds are, for GAAP purposes, investment companies and therefore are not required to consolidate their investments in portfolio companies even if majority-owned and controlled. Rather, the consolidated funds and vehicles reflect their investments at fair value as described below in "Fair Value Measurements."

An entity in which KKR holds a variable interest is a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, (b) the holders of the equity investment at risk (as a group) lack either the direct or indirect ability through voting rights or similar rights to make decisions about a legal entity's activities that have a significant effect on the success of the legal entity or the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the legal entity, their rights to receive the expected residual returns of the legal entity, or both and substantially all of the legal entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights. Limited partnerships and other similar entities where unaffiliated limited partners have not been granted (i) substantive participatory rights or (ii) substantive rights to either dissolve the partnership or remove the general partner ("kick-out rights") are VIEs under condition (b) above. KKR's investment funds that are not CFEs (i) are generally limited partnerships, (ii) generally provide KKR with operational discretion and control and (iii) generally have fund investors with no substantive rights to impact ongoing governance and operating activities of the fund, including the ability to remove the general partner, and as such the limited partners do not hold kick-out rights. Accordingly, most of KKR's investment funds are categorized as VIEs.

KKR consolidates all VIEs in which it is the primary beneficiary. A reporting entity is determined to be the primary beneficiary if it holds a controlling financial interest in a VIE. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (i) whether an entity in which KKR holds a variable interest is a VIE and (ii) whether KKR's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. Fees earned by KKR that are customary and commensurate with the level of effort required to provide those services, and where KKR does not hold other economic interests in the entity that would absorb more than an insignificant amount of the expected losses or returns of the entity, would not be considered variable interests. KKR factors in all economic interests including interests held through related parties, to determine if it holds a variable interest. KKR determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion periodically.

For entities that are determined not to be VIEs, these entities are generally considered VOEs and are evaluated under the voting interest model. KKR consolidates VOEs it controls through a majority voting interest or through other means.

The consolidation assessment, including the determination as to whether an entity qualifies as a VIE or VOE depends on the facts and circumstances surrounding each entity and therefore certain of KKR's investment funds may qualify as VIEs whereas others may qualify as VOEs.

With respect to CLOs (which are generally VIEs), in its role as collateral manager, KKR generally has the power to direct the activities of the CLO that most significantly impact the economic performance of the entity. In some, but not all cases, KKR, through its residual interest in the CLO may have variable interests that represent an obligation to absorb losses of, or a right to receive benefits from, the CLO that could potentially be significant to the CLO. In cases where KKR has both the power to direct the activities of the CLO that most significantly impact the CLO's economic performance and the obligation to absorb losses of the CLO or the right to receive benefits from the CLO that could potentially be significant to the CLO, KKR is deemed to be the primary beneficiary and consolidates the CLO.

With respect to CMBS vehicles (which are generally VIEs), KKR holds unrated and non-investment grade rated securities issued by the CMBS, which are the most subordinate tranche of the CMBS vehicle. The economic performance of the CMBS is most significantly impacted by the performance of the underlying assets. Thus, the activities that most significantly impact the CMBS economic performance are the activities that most significantly impact the performance of the underlying assets. The special servicer has the ability to manage the CMBS assets that are delinquent or in default to improve the economic performance of the CMBS. KKR generally has the right to unilaterally appoint and remove the special servicer for the CMBS and as such is considered the controlling class of the CMBS vehicle. These rights give KKR the ability to direct the activities that most significantly impact the economic performance of the CMBS. Additionally, as the holder of the most subordinate tranche, KKR is in a first loss position and has the right to receive benefits, including the actual residual returns of the CMBS, if any. In these cases, KKR is deemed to be the primary beneficiary and consolidates the CMBS vehicle.

Investments

Investments consist primarily of private equity, real assets, credit, investments of consolidated CFEs, equity method, carried interest and other investments. Investments denominated in currencies other than the entity's functional currency are valued based on the spot rate of the respective currency at the end of the reporting period with changes related to exchange rate movements reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Security and loan transactions are recorded on a trade date basis. Further disclosure on investments is presented in Note 4 "Investments."

The following describes the types of securities held within each investment class.

Private Equity - Consists primarily of equity investments in operating businesses, including growth equity investments.

Notes to Condensed Consolidated Financial Statements (Continued)

Credit - Consists primarily of investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans), distressed and opportunistic debt and interests in unconsolidated CLOs.

Investments of Consolidated CFEs - Consists primarily of (i) investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans) held directly by the consolidated CLOs and (ii) investments in originated, fixed-rate mortgage loans held directly by the consolidated CMBS vehicles.

Real Assets - Consists primarily of investments in (i) energy related assets, principally oil and natural gas producing properties, (ii) infrastructure assets, and (iii) real estate, principally residential and commercial real estate assets and businesses.

Equity Method - Other - Consists primarily of (i) certain direct interests in operating companies in which KKR is deemed to exert significant influence under GAAP and (ii) certain interests in partnerships and joint ventures that hold private equity and real estate investments.

Equity Method - Capital Allocation-Based Income - Consists primarily of (i) the capital interest KKR holds as the general partner in certain investment funds, which are not consolidated and (ii) the carried interest component of the general partner interest, which are accounted for as a single unit of account.

Other - Consists primarily of investments in common stock, preferred stock, warrants and options of companies that are not private equity, real assets, credit or investments of consolidated CFEs.

Investments held by Consolidated Investment Funds

The consolidated investment funds are, for GAAP purposes, investment companies and reflect their investments and other financial instruments, including portfolio companies that are majority-owned and controlled by KKR's investment funds, at fair value. KKR has retained this specialized accounting for the consolidated funds in consolidation. Accordingly, the unrealized gains and losses resulting from changes in fair value of the investments and other financial instruments held by the consolidated investment funds are reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations.

Certain energy investments are made through consolidated investment funds, including investments in working and royalty interests in oil and natural gas producing properties as well as investments in operating companies that operate in the energy industry. Since these investments are held through consolidated investment funds, such investments are reflected at fair value as of the end of the reporting period.

Investments in operating companies that are held through KKR's consolidated investment funds are generally classified within private equity investments and investments in working and royalty interests in oil and natural gas producing properties are generally classified as real asset investments.

Energy Investments held directly by KKR

Certain energy investments are made by KKR directly in working and royalty interests in oil and natural gas producing properties and not through investment funds. Oil and natural gas producing activities are accounted for under the successful efforts method of accounting and such working interests are consolidated based on the proportion of the working interests held by KKR. Accordingly, KKR reflects its proportionate share of the underlying statements of financial condition and statements of operations of the consolidated working interests on a gross basis and changes in the value of these working interests are not reflected as unrealized gains and losses in the condensed consolidated statements of operations. Under the successful efforts method, exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. Costs that are associated with the drilling of successful exploration wells are capitalized if proved reserves are found. Lease acquisition costs are capitalized when incurred. Costs associated with the drilling of exploratory wells that do not find proved reserves, geological and geophysical costs and costs of certain nonproducing leasehold costs are charged to expense as incurred.

Expenditures for repairs and maintenance, including workovers, are charged to expense as incurred.

The capitalized costs of producing oil and natural gas properties are depleted on a field-by-field basis using the units-of production method based on the ratio of current production to estimated total net proved oil, natural gas and natural gas liquid reserves. Proved developed reserves are used in computing depletion rates for drilling and development costs and total proved reserves are used for depletion rates of leasehold costs.

Estimated dismantlement and abandonment costs for oil and natural gas properties, net of salvage value, are capitalized at their estimated net present value and amortized on a unit-of-production basis over the remaining life of the related proved developed reserves.

Whenever events or changes in circumstances indicate that the carrying amounts of oil and natural gas properties may not be recoverable, KKR evaluates oil and natural gas properties and related equipment and facilities for impairment on a field-by-field basis. The determination of recoverability is made based upon estimated undiscounted future net cash flows. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flow analysis, with the carrying value of the related asset. Any impairment in value is recognized when incurred and is recorded in General, Administrative, and Other expense in the condensed consolidated statements of operations.

Fair Value Option

For certain investments and other financial instruments, KKR has elected the fair value option. Such election is irrevocable and is applied on a financial instrument by financial instrument basis at initial recognition. KKR has elected the fair value option for certain private equity, real assets, credit, investments of consolidated CFEs, equity method - other and other financial instruments not held through a consolidated investment fund. Accounting for these investments at fair value is consistent with how KKR accounts for its investments held through consolidated investment funds. Changes in the fair value of such instruments are recognized in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Interest income on interest bearing credit securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest Income in the condensed consolidated statements of operations.

Equity Method

For certain investments in entities over which KKR exercises significant influence but which do not meet the requirements for consolidation and for which KKR has not elected the fair value option, KKR uses the equity method of accounting. The carrying value of equity method investments, for which KKR has not elected the fair value option, is determined based on the amounts invested by KKR, adjusted for the equity in earnings or losses of the investee allocated based on KKR's respective ownership percentage, less distributions.

For equity method investments for which KKR has not elected the fair value option, KKR records its proportionate share of the investee's earnings or losses based on the most recently available financial information of the investee, which in certain cases may lag the date of KKR's financial statements by no more than three calendar months. As of September 30, 2018, equity method investees for which KKR reports financial results on a lag include Marshall Wace LLP ("Marshall Wace"). KKR evaluates its equity method investments for which KKR has not elected the fair value option for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable.

The carrying value of Equity Method - Capital Allocation-Based Income investments approximate fair value, because the underlying investments of the unconsolidated investment funds are reported at fair value.

Financial Instruments held by Consolidated CFEs

KKR measures both the financial assets and financial liabilities of the consolidated CFEs in its financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities which results in KKR's consolidated net income (loss) reflecting KKR's own economic interests in the consolidated CFEs including (i) changes in the fair value of the beneficial interests retained by KKR and (ii) beneficial interests that represent compensation for services rendered.

For the consolidated CLOs, KKR has determined that the fair value of the financial assets of the consolidated CLOs is more observable than the fair value of the financial liabilities of the consolidated CLOs. As a result, the financial assets of the consolidated CLOs are being measured at fair value and the financial liabilities are being measured in consolidation as: (1) the sum of the fair value of the financial assets and the carrying value of any nonfinancial assets that are incidental to the operations of the CLOs less (2) the sum of the fair value of any beneficial interests retained by KKR (other than those that represent compensation for services) and KKR's carrying value of any beneficial interests that represent compensation for services. The resulting amount is allocated to the individual financial liabilities (other than the beneficial interests retained by KKR).

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For the consolidated CMBS vehicles, KKR has determined that the fair value of the financial liabilities of the consolidated CMBS vehicles is more observable than the fair value of the financial assets of the consolidated CMBS vehicles. As a result, the financial liabilities of the consolidated CMBS vehicles are being measured at fair value and the financial assets are being measured in consolidation as: (1) the sum of the fair value of the financial liabilities (other than the beneficial interests retained by KKR), the fair value of the beneficial interests retained by KKR and the carrying value of any nonfinancial liabilities that are incidental to the operations of the CMBS vehicles less (2) the carrying value of any nonfinancial assets that are incidental to the operations of the CMBS vehicles. The resulting amount is allocated to the individual financial assets.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Except for certain of KKR's equity method investments (see "Equity Method" above in this Note 2 "Summary of Significant Accounting Policies") and debt obligations (as described in Note 10 "Debt Obligations"), KKR's investments and other financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve varying levels of management estimation and judgment, the degree of which is dependent on a variety of factors.

GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments and financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

Level I - Pricing inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the measurement date. The types of financial instruments included in this category are publicly-listed equities and securities sold short.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies. The types of financial instruments included in this category are credit investments, investments and debt obligations of consolidated CLO entities, convertible debt securities indexed to publicly-listed securities, less liquid and restricted equity securities and certain over-the-counter derivatives such as foreign currency option and forward contracts.

Level III - Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. The types of financial instruments generally included in this category are private portfolio companies, real assets investments, credit investments, equity method investments for which the fair value option was elected and investments and debt obligations of consolidated CMBS entities.

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

A significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be representative of fair value because in such market conditions there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument has recently been issued, whether the instrument is traded on an active exchange or in the secondary market, and current market conditions. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by KKR in determining fair value is greatest for instruments categorized in Level III. The variability and availability of the observable inputs affected by the factors described above may cause transfers between Levels I, II, and III, which KKR recognizes at the beginning of the reporting period.

Investments and other financial instruments that have readily observable market prices (such as those traded on a securities exchange) are stated at the last quoted sales price as of the reporting date. KKR does not adjust the quoted price for these investments, even in situations where KKR holds a large position and a sale could reasonably affect the quoted price.

Management's determination of fair value is based upon the methodologies and processes described below and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors.

Level II Valuation Methodologies

Credit Investments: These instruments generally have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that KKR and others are willing to pay for an instrument. Ask prices represent the lowest price that KKR and others are willing to accept for an instrument. For financial assets and liabilities whose inputs are based on bid-ask prices obtained from third party pricing services, fair value may not always be a predetermined point in the bid-ask range. KKR's policy is generally to allow for mid-market pricing and adjusting to the point within the bid-ask range that meets KKR's best estimate of fair value.

Investments and Debt Obligations of Consolidated CLO Vehicles: Investments of consolidated CLO vehicles are reported within Investments of Consolidated CFEs and are valued using the same valuation methodology as described above for credit investments. Under ASU 2014-13, KKR measures CLO debt obligations on the basis of the fair value of the financial assets of the CLO.

Securities indexed to publicly-listed securities: The securities are typically valued using standard convertible security pricing models. The key inputs into these models that require some amount of judgment are the credit spreads utilized and the volatility assumed. To the extent the company being valued has other outstanding debt securities that are publicly-traded, the implied credit spread on the company's other outstanding debt securities would be utilized in the valuation. To the extent the company being valued does not have other outstanding debt securities that are publicly-traded, the credit spread will be estimated based on the implied credit spreads observed in comparable publicly-traded debt securities. In certain cases, an additional spread will be added to reflect an illiquidity discount due to the fact that the security being valued is not publicly-traded. The volatility assumption is based upon the historically observed volatility of the underlying equity security into which the convertible debt security is convertible and/or the volatility implied by the prices of options on the underlying equity security.

Restricted Equity Securities: The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

Derivatives: The valuation incorporates observable inputs comprising yield curves, foreign currency rates and credit spreads.

Level III Valuation Methodologies

Investments and financial instruments categorized as Level III consist primarily of the following:

Private Equity Investments: KKR generally employs two valuation methodologies when determining the fair value of a private equity investment. The first methodology is typically a market comparables analysis that considers key financial inputs and recent public and private transactions and other available measures. The second methodology utilized is typically a discounted cash flow analysis, which incorporates significant assumptions and judgments. Estimates of key inputs used in this methodology include the weighted average cost of capital for the investment and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Other inputs are also used in both methodologies. In addition, when a definitive agreement has been executed to sell an investment, KKR generally considers a significant determinant of fair value to be the consideration to be received by KKR pursuant to the executed definitive agreement.

Upon completion of the valuations conducted using these methodologies, a weighting is ascribed to each method, and an illiquidity discount is typically applied where appropriate. The ultimate fair value recorded for a particular investment will generally be within a range suggested by the two methodologies, except that the value may be higher or lower than such range in the case of investments being sold pursuant to an executed definitive agreement.

When determining the weighting ascribed to each valuation methodology, KKR considers, among other factors, the availability of direct market comparables, the applicability of a discounted cash flow analysis, the expected hold period and manner of realization for the investment, and in the case of investments being sold pursuant to an executed definitive agreement, an estimated probability of such sale being completed. These factors can result in different weightings among investments in the portfolio and in certain instances may result in up to a 100% weighting to a single methodology.

When an illiquidity discount is to be applied, KKR seeks to take a uniform approach across its portfolio and generally applies a minimum 5% discount to all private equity investments. KKR then evaluates such private equity investments to determine if factors exist that could make it more challenging to monetize the investment and, therefore, justify applying a higher illiquidity discount. These factors generally include (i) whether KKR is unable to sell the portfolio company or conduct an initial public offering of the portfolio company due to the consent rights of a third party or similar factors, (ii) whether the portfolio company is undergoing significant restructuring activity or similar factors and (iii) characteristics about the portfolio company regarding its size and/or whether the portfolio company is experiencing, or expected to experience, a significant decline in earnings. These factors generally make it less likely that a portfolio company would be sold or publicly offered in the near term at a price indicated by using just a market multiples and/or discounted cash flow analysis, and these factors tend to reduce the number of opportunities to sell an investment and/or increase the time horizon over which an investment may be monetized. Depending on the applicability of these factors, KKR determines the amount of any incremental illiquidity discount to be applied above the 5% minimum, and during the time KKR holds the investment, the illiquidity discount may be increased or decreased, from time to time, based on changes to these factors. The amount of illiquidity discount applied at any time requires considerable judgment about what a market participant would consider and is based on the facts and circumstances of each individual investment. Accordingly, the illiquidity discount ultimately considered by a market participant upon the realization of any investment may be higher or lower than that estimated by KKR in its valuations.

In the case of growth equity investments, enterprise values may be determined using the market comparables analysis and discounted cash flow analysis described above. A scenario analysis may also be conducted to subject the estimated enterprise values to a downside, base and upside case, which involves significant assumptions and judgments. A milestone analysis may also be conducted to assess the current level of progress towards value drivers that we have determined to be important, which involves significant assumptions and judgments. The enterprise value in each case may then be allocated across the investment's capital structure to reflect the terms of the security and subjected to probability weightings. In certain cases, the values of growth equity investments may be based on recent or expected financings.

Real Asset Investments: Real asset investments in infrastructure, energy and real estate are valued using one or more of the discounted cash flow analysis, market comparables analysis and direct income capitalization, which in each case incorporates significant assumptions and judgments. Infrastructure investments are generally valued using the discounted cash flow analysis. Key inputs used in this methodology can include the weighted average cost of capital and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Energy investments are generally valued using a discounted cash flow analysis. Key inputs used in this methodology that require estimates include the weighted average cost of capital. In addition, the valuations of energy investments generally incorporate both commodity prices as quoted on indices and long-term commodity price forecasts, which may be substantially different from commodity prices on certain indices for equivalent future dates. Certain energy investments do not include an illiquidity discount. Long-term commodity price forecasts are utilized to capture the value of the investments across a range of commodity prices within the energy investment portfolio associated with future development and to reflect a range of price expectations. Real estate investments are generally valued using a combination of direct income capitalization and discounted cash flow analysis. Key inputs used in such methodologies that require estimates include an unlevered discount rate and current capitalization rate. The valuations of real assets investments also use other inputs.

Credit Investments: Credit investments are valued using values obtained from dealers or market makers, and where these values are not available, credit investments are generally valued by KKR based on ranges of valuations determined by an independent valuation firm. Valuation models are based on discounted cash flow analyses, for which the key inputs are determined based on market comparables, which incorporate similar instruments from similar issuers.

Other Investments: With respect to other investments including equity method investments for which the fair value election has been made, KKR generally employs the same valuation methodologies as described above for private equity investments when valuing these other investments.

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Notes to Condensed Consolidated Financial Statements (Continued)

Investments and Debt Obligations of Consolidated CMBS Vehicles: Under ASU 2014-13, KKR measures CMBS investments, which are reported within Investments of Consolidated CFEs on the basis of the fair value of the financial liabilities of the CMBS. Debt obligations of consolidated CMBS vehicles are valued based on discounted cash flow analyses. The key input is the expected yield of each CMBS security using both observable and unobservable factors, which may include recently offered or completed trades and published yields of similar securities, security-specific characteristics (e.g. securities ratings issued by nationally recognized statistical rating organizations, credit support by other subordinate securities issued by the CMBS and coupon type) and other characteristics.

Key unobservable inputs that have a significant impact on KKR's Level III investment valuations as described above are included in Note 5 "Fair Value Measurements." KKR utilizes several unobservable pricing inputs and assumptions in determining the fair value of its Level III investments. These unobservable pricing inputs and assumptions may differ by investment and in the application of KKR's valuation methodologies. KKR's reported fair value estimates could vary materially if KKR had chosen to incorporate different unobservable pricing inputs and other assumptions or, for applicable investments, if KKR only used either the discounted cash flow methodology or the market comparables methodology instead of assigning a weighting to both methodologies.

Revenues

For the three and nine months ended September 30, 2018 and 2017, respectively, revenues consisted of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Management Fees | $188,866 | $178,942 | $547,765 | $517,393 |
| Fee Credits | (73,904) | (70,641) | (137,804) | (207,396) |
| Transaction Fees | 290,404 | 181,280 | 619,278 | 581,410 |
| Monitoring Fees | 20,176 | 14,478 | 63,125 | 58,977 |
| Incentive Fees | — | 2,519 | 14,038 | 3,637 |
| Expense Reimbursements | 38,212 | 27,370 | 108,999 | 86,226 |
| Oil and Gas Revenue | 12,635 | 12,441 | 40,995 | 47,096 |
| Consulting Fees | 15,114 | 9,029 | 43,347 | 29,039 |
| Total Fees and Other | 491,503 | 355,418 | 1,299,743 | 1,116,382 |
| | | | | |
| Carried Interest | 543,750 | 337,459 | 1,097,673 | 1,224,235 |
| General Partner Capital Interest | 94,413 | 56,775 | 176,476 | 192,590 |
| Total Capital Allocation-Based Income | 638,163 | 394,234 | 1,274,149 | 1,416,825 |
| | | | | |
| Total Revenues | $1,129,666 | $749,652 | $2,573,892 | $2,533,207 |

Fees and Other

Fees and Other, as detailed above, are accounted for as contracts with customers. Under the guidance for contracts with customers, KKR is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract and (e) recognize revenue when (or as) KKR satisfies its performance obligation. In determining the transaction price, KKR has included variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved. See Note 14 “Segment Reporting” for a disaggregated presentation of revenues by business line from contracts with customers.

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Notes to Condensed Consolidated Financial Statements (Continued)

The following table summarizes KKR's revenues from contracts with customers:

| Revenue Type | Customer | Performance Obligation | Performance Obligation Satisfied Over Time or Point In Time [1] | Variable or Fixed Consideration | Payment Terms | Subject to Return Once Recognized | Classification of Uncollected Amounts [2] |
|---|---|---|---|---|---|---|---|
| Management Fees | Investment funds, CLOs and other vehicles | Investment management services | Over time as services are rendered | Variable consideration since varies based on fluctuations in the basis of the management fee over time | Typically quarterly or annually in arrears | No | Due from Affiliates |
| Transaction Fees | Portfolio companies and third party companies | Advisory services and debt and equity arranging and underwriting | Point in time when the transaction (e.g. underwriting) is completed | Fixed consideration | Typically paid on or shortly after transaction closes | No | Due from Affiliates (portfolio companies)<br><br>Other Assets (third parties) |
| Monitoring Fees | | | | | | | |
| Recurring Fees | Portfolio companies | Monitoring services | Over time as services are rendered | Variable consideration since varies based on fluctuations in the basis of the recurring fee | Typically quarterly in arrears | No | Due from Affiliates |
| Termination Fees | Portfolio companies | Monitoring services | Point in time when the termination is completed | Fixed consideration | Typically paid on or shortly after termination occurs | No | Due from Affiliates |
| Incentive Fees | Investment funds and other vehicles | Investment management services that result in achievement of minimum investment return levels | Point in time at the end of the performance measurement period (quarterly or annually) if investment performance is achieved | Variable consideration since contingent upon the investment fund and other vehicles achieving more than stipulated investment return hurdles | Typically paid shortly after the end of the performance measurement period | No | Due from Affiliates |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Expense Reimbursements | Investment funds and portfolio companies | Investment management and monitoring services | Point in time when the related expense is incurred | Fixed consideration | Typically shortly after expense is incurred | No | Due from Affiliates |
| Oil and Gas Revenues | Oil and gas wholesalers | Delivery of oil liquids and gas | Point in time when delivery has occurred and title has transferred | Fixed consideration | Typically shortly after delivery | No | Other Assets |
| Consulting Fees | Portfolio companies and other companies | Consulting and other services | Over time as services are rendered | Fixed consideration | Typically quarterly in arrears | No | Due from Affiliates |

(1) For performance obligations satisfied at a point in time, there were no significant judgments made in evaluating when a customer obtains control of the promised service.
(2) For amounts classified in Other Assets, see Note 8 "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities". For amounts classified in Due from Affiliates, see Note 13 "Related Party Transactions".

Management Fees

KKR provides investment management services to investment funds, CLOs, and other vehicles in exchange for a management fee. Management fees are determined quarterly based on an annual rate and are generally based upon a percentage of the capital committed or capital invested during the investment period. Thereafter, management fees are generally based on a percentage of remaining invested capital, net asset value, gross assets or as otherwise defined in the respective contractual agreements. Since some of the factors that cause the fees to fluctuate are outside of KKR's control, management fees are considered to be constrained and are therefore not included in the transaction price. Additionally, after the contract is established there are no significant judgments made when determining the transaction price.
Management fees earned from private equity funds generally range from 1% to 2% of committed capital during the fund's investment period and are generally 0.75% to 1.25% of invested capital after the expiration of the fund's investment period with subsequent reductions over time. Typically, an investment period is defined as a period of up to six years. The actual length of the investment period is often shorter due to the earlier deployment of committed capital. Management fees earned from growth

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equity, real assets, and core investment strategy funds generally range from 0.5% to 2.0% and are generally based on the investment fund's average net asset value, capital commitments, or invested capital.

Management fees earned from credit funds and other investment vehicles in the Public Markets business line generally range from 0.33% to 1.75%. Such rates may be based on the investment fund's average net asset value, capital commitments, or invested capital. Management fees earned from CLOs include senior collateral management fees and subordinate collateral management fees. When combined, senior collateral management fees and subordinate collateral management fees are determined based on an annual rate ranging from 0.40% to 0.50% of collateral. If amounts distributable on any payment date are insufficient to pay the collateral management fees according to the priority of payments, any shortfall is deferred and payable on subsequent payment dates. For the purpose of calculating the collateral management fees, collateral, the payment dates, and the priority of payments are terms defined in the management agreements.

Management fees earned from KKR's consolidated investment funds, CLOs and other vehicles are eliminated in consolidation. However, because these amounts are funded by, and earned from, noncontrolling interests, KKR's allocated share of the net income from the consolidated investment funds, CLOs and other vehicles is increased by the amount of fees that are eliminated. Accordingly, the elimination of these fees does not impact the net income (loss) attributable to KKR or KKR stockholders' equity.

Fee Credits

Under the terms of the management agreements with certain of its investment funds, KKR is required to share with such funds an agreed upon percentage of certain fees, including monitoring and transaction fees earned from portfolio companies ("Fee Credits"). Investment funds earn Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the portfolio company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain costs related to investment transactions that were not consummated ("broken deal costs") and generally amount to 80% for older funds, or 100% for our newer funds, of allocable monitoring and transaction fees after broken deal costs are recovered, although the actual percentage may vary from fund to fund. Fee Credits are recognized and owed to investment funds concurrently with the recognition of monitoring fees, transaction fees and broken deal costs. Since Fee Credits are payable to investment funds, amounts owed are generally applied as a reduction of the management fee that is otherwise billed to the investment fund. Fee credits are recorded as a reduction of revenues in the consolidated statement of operations. Fee credits owed to investment funds are recorded in Due to Affiliates on the condensed consolidated statements of financial condition (See Note 13 "Related Party Transactions").

Transaction Fees

KKR (i) arranges debt and equity financing, places and underwrites securities offerings and provides other types of capital markets services for companies seeking financing in its Capital Markets business line and (ii) provides advisory services in connection with successful Private Markets and Public Markets portfolio company investment transactions, in each case, in exchange for a transaction fee. Transaction fees are separately negotiated for each transaction and are generally based on (i) in our Capital Markets business line, a percentage of the overall transaction size and (ii) for Private Markets and Public Markets transactions, a percentage of either total enterprise value of an investment or a percentage of the aggregate price paid for an investment. After the contract is established, there are no significant judgments made when determining the transaction price.

Monitoring Fees

KKR provides services in connection with monitoring portfolio companies in exchange for a fee. Recurring monitoring fees are separately negotiated for each portfolio company. In addition, certain monitoring fee arrangements may provide for a termination payment following an initial public offering or change of control as defined in the contractual terms of the related agreement. These termination payments are recognized in the period when the related transaction closes. After the contract is established, there are no significant judgments made when determining the transaction price.

Incentive Fees

KKR provides investment management services to certain investment funds, CLOs and other vehicles in exchange for a management fee as discussed above and, in some cases an incentive fee when KKR is not entitled to a carried interest. Incentive fee rates generally range from 5% to 20% of investment gains. Incentive fees are considered a form of variable consideration as these fees are subject to reversal, and therefore the recognition of such fees is deferred until the end of each fund's measurement period (which is generally one year) when the performance-based incentive fees become fixed and

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determinable. Incentive fees are generally paid within 90 days of the end of the investment vehicles' measurement period. After the contract is established, there are no significant judgments made when determining the transaction price.

Expense Reimbursements

Providing investment management services to investment funds and monitoring KKR’s portfolio companies require KKR to arrange for services on behalf of them. In those situations where KKR is acting as an agent on behalf of its investment funds or portfolio companies, it presents the cost of services on a net basis as a reduction of Revenues. In all other situations, KKR is primarily responsible for fulfilling the services and is therefore acting as a principal for those arrangements for accounting purposes. As a result, the expense and related reimbursement associated with those services is presented on a gross basis. Costs incurred are classified as Expenses and reimbursements of such costs are classified as Expense Reimbursements within Revenues on the condensed consolidated statements of operations. After the contract is established, there are no significant judgments made when determining the transaction price.

Oil and Gas Revenue

KKR directly holds certain working and royalty interests in oil and natural gas producing properties that are not held through investment funds. Oil and gas revenue is recognized when the performance obligation is satisfied, which occurs at the point in time when control of the product transfers to the customer. Performance obligations are typically satisfied through the monthly delivery of production. Revenue is recognized based on KKR's proportionate share of production from non-operated properties as marketed by the operator. After the contract is established, there are no significant judgments made when determining the transaction price.

Consulting Fees

Certain consolidated entities that employ non-employee operating consultants provide consulting and other services to portfolio companies and other companies in exchange for a consulting fee. Consulting fees are separately negotiated with each portfolio company for which services are provided and are not shared with KKR. After the contract is established, there are no significant judgments made when determining the transaction price.

Capital Allocation-Based Income

Capital allocation-based income is earned from those arrangements where KKR has a general partner capital interest and is entitled to a disproportionate allocation of investment income (referred to hereafter as “carried interest”). KKR accounts for its general partner interests in capital allocation-based arrangements as financial instruments under ASC 323, Investments - Equity Method and Joint Ventures (“ASC 323”) since the general partner has significant governance rights in the investment funds in which it invests, which demonstrates significant influence. In accordance with ASC 323, KKR records equity method income based on the proportionate share of the income of the investment fund, including carried interest, assuming the investment fund was liquidated as of each reporting date pursuant to each investment fund's governing agreements. Accordingly, these general partner interests are accounted for outside of the scope of ASC 606. Other arrangements surrounding contractual incentive fees through an advisory contract are separate and distinct and accounted for in accordance with ASC 606. In these incentive fee arrangements, accounted for in accordance with ASC 606, KKR’s economics in the entity do not involve an allocation of capital. See “Incentive Fees” above.

Carried interest is allocated to the general partner based on cumulative fund performance to date, and where applicable, subject to a preferred return to the funds' limited partners. At the end of each reporting period, KKR calculates the carried interest that would be due to KKR for each investment fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as carried interest to reflect either (a) positive performance resulting in an increase in the carried interest allocated to the general partner or (b) negative performance that would cause the amount due to KKR to be less than the amount previously recognized, resulting in a negative adjustment to carried interest allocated to the general partner. In each case, it is necessary to calculate the carried interest on cumulative results compared to the carried interest recorded to date and to make the required positive or negative adjustments. KKR ceases to record negative carried interest allocations once previously recognized carried interest allocations for an investment fund have been fully reversed. KKR is not obligated to make payments for guaranteed returns or hurdles and, therefore, cannot have negative carried interest over the life of an investment fund. Accrued but unpaid carried interest as of the reporting date is reflected in Investments in the condensed consolidated statements of financial condition.

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Prior to January 1, 2018, to the extent an investment fund was not consolidated, KKR accounted for carried interest within Fees and Other separately from its general partner capital interest, which was included in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Effective January 1, 2018, the carried interest component of the general partner interest and the capital interest KKR holds in its investment funds as the general partner are accounted for as a single unit of account and reported in capital allocation-based income within Revenues in the condensed consolidated statements of operations. This change in accounting principle has been applied on a full retrospective basis. For the three and nine months ended September 30, 2017, $337.4 million and $1,224.2 million were reclassified from Fees and Other, respectively, to Capital Allocation-Based Income in the condensed consolidated statements of operations. For the three and nine months ended September 30, 2017, $56.8 million and $192.6 million were reclassified from Net Gains (Losses) from Investment Activities, respectively, to Capital Allocation-Based Income in the condensed consolidated statements of operations. KKR has concluded that investments made alongside its fund investors in investment funds which entitle KKR to a carried interest represent equity method investments that are not in the scope of the amended revenue recognition guidance.

Income Taxes

KKR & Co. Inc. is a corporation for U.S. federal income tax purposes and thus is subject to U.S. federal, state and local corporate income taxes at the entity level on KKR's share of net taxable income. In addition, the KKR Group Partnerships and certain of their subsidiaries operate in the United States as partnerships for U.S. federal income tax purposes and as corporate entities in certain non-U.S. jurisdictions. These entities, in some cases, are subject to U.S. state or local income taxes or non-U.S. income taxes.

Prior to the Conversion, KKR & Co. L.P.'s investment income and carried interest generally were not subject to U.S. corporate income taxes. Subsequent to the Conversion, all income earned by KKR & Co. Inc. is subject to U.S. corporate income taxes, which we believe will result in an overall higher income tax expense (or benefit) when compared to periods prior to the Conversion.

See Note 11 "Income Taxes" for further information on the financial statement impact of the Conversion.

Deferred Income Taxes

Income taxes are accounted for using the asset and liability method of accounting. 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 tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period when the change is enacted.

Deferred tax assets, which are recorded in Other Assets within the statement of financial condition, are reduced by a valuation allowance when, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. When evaluating the realizability of the deferred tax assets, all evidence, both positive and negative, is considered. Items considered when evaluating the need for a valuation allowance include the ability to carry back losses, future reversals of existing temporary differences, tax planning strategies, and expectations of future earnings.

For a particular tax paying component of an entity and within a particular tax jurisdiction, deferred tax assets and liabilities are offset and presented as a single amount within Other Assets or Accounts Payable, Accrued and Other Liabilities, as applicable, in the accompanying statements of financial condition.

2017 Tax Act

The Tax Cuts and Jobs Act, which was enacted in December 2017 (the "2017 Tax Act") makes various changes to the U.S. tax code that include, but are not limited to, (1) reducing the U.S. federal corporate income tax rate to a maximum of 21% effective January 1, 2018 and (2) requiring a one-time transition tax on certain un-repatriated earnings of foreign subsidiaries.

See Note 11 "Income Taxes" for further information on the financial statement impact of the 2017 Tax Act.

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Uncertain Tax Positions

KKR analyzes its tax filing positions in all of the U.S. federal, state and local tax jurisdictions and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. If, based on this analysis, KKR determines that uncertainties in tax positions exist, a reserve is established. The reserve for uncertain tax positions is recorded in Accounts Payable, Accrued and Other Liabilities in the accompanying statements of financial condition. KKR recognizes accrued interest and penalties related to uncertain tax positions within the provision for income taxes in the consolidated statements of operations.

KKR records uncertain tax positions on the basis of a two step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more likely than not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Cash and Cash Equivalents Held at Consolidated Entities

Cash and cash equivalents held at consolidated entities represents cash that, although not legally restricted, is not available to fund general liquidity needs of KKR as the use of such funds is generally limited to the investment activities of KKR's investment funds and CFEs.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents primarily represent amounts that are held by third parties under certain of KKR's financing and derivative transactions. The duration of this restricted cash generally matches the duration of the related financing or derivative transaction.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

The FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”) in May 2014 and subsequently issued several amendments to the standard. ASU 2014-09, and related amendments, provide comprehensive guidance for recognizing revenue from contracts with customers. Entities will be able to recognize revenue when the entity transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The guidance includes a five-step framework that requires an entity to: (i) identify the contracts with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contracts and (v) recognize revenue when the entity satisfies a performance obligation. The guidance in ASU 2014-09, and the related amendments, is effective for KKR beginning on January 1, 2018, and KKR adopted this guidance on that date. KKR has concluded that its Fees and Other are within the scope of the amended revenue recognition guidance. Additionally, KKR has concluded that investments made alongside its fund investors in investment funds which entitle KKR to a carried interest represent equity method investments that are not in the scope of the amended revenue recognition guidance. KKR has implemented ASU 2014-09 and its related amendments and there were no changes to KKR's historical pattern of recognizing revenue. See the accounting policy for Revenues above.

Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The amended guidance adds or clarifies guidance on eight cash flow matters:

(i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies, (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions and (viii) separately identifiable cash flows and application of the predominance principle. The guidance is effective for KKR beginning on January 1, 2018, and KKR adopted this guidance on that date. This adoption did not have a material impact on KKR's condensed consolidated statements of cash flows.

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In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which amends the guidance to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The amended guidance requires the following: (i) restricted cash and restricted cash equivalents should be included in the cash and cash-equivalents balances in the statement of cash flows; (ii) changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows; (iii) a reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents and (iv) the nature of the restrictions must be disclosed for material restricted cash and restricted cash equivalents amounts. The guidance is effective for KKR beginning on January 1, 2018, and KKR adopted this guidance on that date. Upon adoption, (i) Restricted Cash and Cash Equivalents and (ii) Cash and Cash Equivalents Held at Consolidated Entities were (a) included in the cash and cash-equivalents balances in the condensed consolidated statements of cash flows and (b) disclosed in a reconciliation between the condensed consolidated statements of financial condition and the condensed consolidated statements of cash flows. This guidance has been applied on a full retrospective basis. For the nine months ended September 30, 2017, $365.5 million of cash provided by operating activities and $168.0 million of cash provided by investing activities were removed from net cash provided (used) by operating activities and net cash provided (used) by investing activities, respectively, and included in net increase/(decrease) in cash, cash-equivalents and restricted cash in the condensed consolidated statements of cash flows.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) which has subsequently been amended by ASU 2018-11. The guidance requires the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The guidance retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under previous GAAP. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly from previous GAAP. For operating leases, a lessee is required to do the following: (a) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial condition; (b) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis and (c) classify all cash payments within operating activities in the statement of cash flows. The guidance is effective for fiscal periods beginning after December 15, 2018. Early application is permitted. KKR is currently evaluating the impact of this guidance on the financial statements and such guidance is not expected to have a material impact to KKR.

Equity-Based Compensation

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"), which amends the scope of modification accounting for share-based payment arrangements. ASU 2017-09 provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for fiscal years and interim periods beginning after December 15, 2017. This guidance has been adopted as of January 1, 2018 and did not have a material impact to KKR.

In June 2018, the FASB issued ASU No. 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"), which generally simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under ASU 2018-07, most of the guidance on such payments to nonemployees is generally aligned with the requirements for share-based payments granted to employees. Prior to adoption of ASU 2018-07, share-based payment arrangements with employees were accounted for under ASC 718, Compensation - Stock Compensation, while nonemployee share-based payments issued for goods and services were accounted for under ASC 505-50, Equity - Equity Based Payments to Non-Employees. ASC 505-50, before the ASU's amendments, differed significantly from ASC 718. Differences included the guidance on (1) the determination of the measurement date (which generally is the date on which the measurement of equity-classified share-based payments becomes fixed), (2) the accounting for performance conditions, (3) the ability of a nonpublic entity to use certain practical expedients for measurement and (4) the accounting for share-based payments after vesting. ASU 2018-07 eliminates most of these differences. The guidance is effective for fiscal periods beginning after December 15, 2018. KKR has elected to early adopt ASU 2018-07 during the second quarter of 2018 with adjustments reflected as of January 1, 2018. Such adoption did not have a material impact to KKR.

Income Taxes

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-entity Transfers of Assets Other Than Inventory ("ASU 2016-16"), which removed the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. This guidance has been adopted as of January 1, 2018 and did not have a material impact to KKR.

Clarifying the Definition of a Business

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business ("ASU 2017-01"). This guidance amends the definition of a business and provides a threshold which must be considered to determine whether a transaction is an asset acquisition or a business combination. ASU 2017-01 is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted for transactions (i.e. acquisitions or dispositions) that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. This guidance has been adopted as of the fourth quarter of 2017.

Goodwill

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This guidance simplifies the accounting for goodwill impairments by eliminating the second step from the goodwill impairment test. The ASU requires goodwill impairments to be measured on the basis of the fair value of a reporting unit relative to the reporting unit's carrying amount rather than on the basis of the implied amount of goodwill relative to the goodwill balance of the reporting unit. The ASU also (i) clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units related to an entity's testing of reporting units for goodwill impairment and (ii) clarifies that an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The guidance is effective for fiscal periods beginning after December 15, 2019. Early adoption is allowed for entities as of January 1, 2017, for annual and any interim impairment tests occurring after January 1, 2017. KKR is currently evaluating the impact of this guidance on the financial statements.

Implementation Costs Incurred in a Cloud Computing Arrangement

In August 2018, the FASB issued ASU No. 2018-15, which addresses a customer’s accounting for implementation costs incurred in a cloud computing arrangement ("CCA") that is a service contract. The ASU aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. The guidance is effective for fiscal periods beginning after December 15, 2019. Early adoption is permitted and this ASU can be applied on either a retrospective or prospective basis. KKR is currently evaluating the impact of this guidance on the financial statements.

Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, which changes the fair value measurement disclosure requirements. The ASU eliminates, amends and adds disclosure requirements for fair value measurements. The guidance is effective for fiscal periods beginning after December 15, 2019. KKR has elected to early adopt ASU 2018-13 in its entirety during the third quarter of 2018. Such adoption did not have a material impact to KKR.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities ("ASU 2017-08"). This guidance amends the amortization period for certain purchased callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date. The guidance does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted and the guidance when adopted should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. KKR is currently evaluating the impact of this guidance on the financial statements.

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Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). Under ASC 740-10-45-15, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of tax expense related to continuing operations for the period in which the law was enacted, even if the assets and liabilities related to items of accumulated other comprehensive income ("OCI"). ASU 2018-02 allows entities to reclassify from accumulated OCI to retained earnings stranded tax effects related to the change in federal tax rate for all items accounted for in OCI. Entities can also elect to reclassify other stranded tax effects that relate to the 2017 Tax Act, but do not directly relate to the change in the federal tax rate. Tax effects that are stranded in OCI for other reasons may not be reclassified. In the period of adoption, entities that elect to reclassify the income tax effects of the 2017 Tax Act from accumulated OCI to retained earnings must disclose that they made such an election. Entities must also disclose a description of other income tax effects related to the 2017 Tax Act that are reclassified from accumulated OCI to retained earnings, if any. The guidance is effective for fiscal periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted for periods for which financial statement have not yet been issued or made available upon issuance, including in the period the 2017 Tax Act was enacted. An entity that adopts ASU 2018-02 in an annual or interim periods after the period of enactment is able to choose whether to apply the amendments retrospectively to each period in which the effect of the 2017 Tax Act is recognized or to apply the amendments in the period of adoption. KKR is currently evaluating the impact of this guidance on the financial statements.

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Notes to Condensed Consolidated Financial Statements (Continued)

3. NET GAINS (LOSSES) FROM INVESTMENT ACTIVITIES

Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations consist primarily of the realized and unrealized gains and losses on investments (including foreign exchange gains and losses attributable to foreign denominated investments and related activities) and other financial instruments, including those for which the fair value option has been elected. Unrealized gains or losses result from changes in the fair value of these investments and other financial instruments during a period. Upon disposition of an investment or financial instrument, previously recognized unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the current period.

The following tables summarize total Net Gains (Losses) from Investment Activities:

| | Three Months Ended September 30, 2018 | | | Three Months Ended September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Net Realized Gains (Losses) | Net Unrealized Gains (Losses) | Total | Net Realized Gains (Losses) | Net Unrealized Gains (Losses) | Total |
| Private Equity (1) | $137,486 | $434,651 | $572,137 | $74,483 | $77,299 | $151,782 |
| Credit (1) | 11,306 | (260,929) | (249,623) | (19,470) | (21,780) | (41,250) |
| Investments of Consolidated CFEs (1) | (1,132) | 70,963 | 69,831 | (83,797) | 43,905 | (39,892) |
| Real Assets (1) | 52,683 | 42,865 | 95,548 | 24,479 | 56,217 | 80,696 |
| Equity Method - Other (1) | 14,765 | 111,482 | 126,247 | 6,032 | (6,167) | (135) |
| Other Investments (1) | (12,750) | 18,108 | 5,358 | (33,508) | 7,054 | (26,454) |
| Foreign Exchange Forward Contracts and Options (2) | (26,862) | 47,222 | 20,360 | (26,043) | (69,046) | (95,089) |
| Securities Sold Short (2) | 86,188 | (9,901) | 76,287 | (7,785) | 14,369 | 6,584 |
| Other Derivatives (2) | (1,063) | 2,704 | 1,641 | (148) | (5,049) | (5,197) |
| Debt Obligations and Other (3) | (19,565) | (31,490) | (51,055) | 18,343 | 2,616 | 20,959 |
| Net Gains (Losses) From Investment Activities | $241,056 | $425,675 | $666,731 | $(47,414) | $99,418 | $52,004 |

| | Nine Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Net Realized Gains (Losses) | Net Unrealized Gains (Losses) | Total | Net Realized Gains (Losses) | Net Unrealized Gains (Losses) | Total |
| Private Equity (1) | $179,328 | $1,089,947 | $1,269,275 | $202,549 | $372,335 | $574,884 |
| Credit (1) | (132,391) | (289,642) | (422,033) | (417,864) | 393,055 | (24,809) |
| Investments of Consolidated CFEs (1) | (79,184) | (13,954) | (93,138) | (88,677) | 71,952 | (16,725) |
| Real Assets (1) | 76,033 | 248,375 | 324,408 | (34,208) | 233,608 | 199,400 |
| Equity Method - Other (1) | (139,178) | 465,246 | 326,068 | 22,215 | 46,200 | 68,415 |
| Other Investments (1) | (330,850) | (3,394) | (334,244) | (237,496) | 108,654 | (128,842) |
| Foreign Exchange Forward Contracts and Options (2) | (66,795) | 161,793 | 94,998 | (7,975) | (311,427) | (319,402) |
| Securities Sold Short (2) | 614,515 | (51,232) | 563,283 | 497,926 | 66,037 | 563,963 |
| Other Derivatives (2) | 2,579 | 5,740 | 8,319 | (6,027) | (10,602) | (16,629) |
| Debt Obligations and Other (3) | 302,163 | 217,019 | 519,182 | 66,895 | (74,085) | (7,190) |
| Net Gains (Losses) From Investment Activities | $426,220 | $1,829,898 | $2,256,118 | $(2,662) | $895,727 | $893,065 |

(1) See Note 4 "Investments."
(2) See Note 8 "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities."

(3) See Note 10 "Debt Obligations."

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Notes to Condensed Consolidated Financial Statements (Continued)

4. INVESTMENTS

Investments consist of the following:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Private Equity | $7,517,830 | $3,301,261 |
| Credit | 8,627,571 | 7,621,320 |
| Investments of Consolidated CFEs | 13,293,505 | 15,573,203 |
| Real Assets | 3,279,482 | 2,302,061 |
| Equity Method - Other | 4,146,762 | 3,324,631 |
| Equity Method - Capital Allocation-Based Income | 4,417,855 | 4,132,171 |
| Other Investments | 2,836,588 | 2,759,287 |
| Total Investments | $44,119,593 | $39,013,934 |

As of September 30, 2018 and December 31, 2017, there were no investments which represented greater than 5% of total investments. The majority of the securities underlying private equity investments represent equity securities.

Strategic BDC Partnership with FS Investments

On April 9, 2018, KKR completed the transaction to form a new strategic BDC partnership with Franklin Square Holdings, L.P. ("FS Investments") to provide investment advisory services to Corporate Capital Trust ("CCT") and Corporate Capital Trust II ("CCT II"), which are business development companies ("BDCs") that were previously advised and sub-advised, respectively, by KKR, and four BDCs that were previously advised by FS Investments. Following the closing of this transaction in April 2018, the new strategic BDC partnership, FS/KKR Advisor, LLC, began serving as the investment adviser to all six of the aforementioned BDCs.

In connection with this transaction, KKR contributed a combination of cash and intangible assets, which consisted of advisory contractual rights, in exchange for a 50% equity interest in FS/KKR Advisor, LLC. Certain of the intangible assets contributed by KKR had a carrying amount of zero. As a result, the fair value of KKR’s 50% interest in FS/KKR Advisor, LLC received in this transaction exceeded the carrying amount of the assets contributed by approximately $313 million. KKR holds a noncontrolling financial interest in FS/KKR Advisor, LLC and reports its investment in FS/KKR Advisor, LLC using the equity method of accounting.

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Notes to Condensed Consolidated Financial Statements (Continued)

5. FAIR VALUE MEASUREMENTS

The following tables summarize the valuation of KKR's assets and liabilities by the fair value hierarchy. Investments classified as Equity Method - Other, for which the fair value option has not been elected, have been excluded from the tables below.

Assets, at fair value:

| | September 30, 2018 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Private Equity | $1,284,468 | $309,134 | $5,924,228 | $7,517,830 |
| Credit | — | 2,175,830 | 6,451,741 | 8,627,571 |
| Investments of Consolidated CFEs | — | 12,197,431 | 1,096,074 | 13,293,505 |
| Real Assets | — | — | 3,279,482 | 3,279,482 |
| Equity Method - Other | 294,171 | 47,938 | 1,402,852 | 1,744,961 |
| Other Investments | 895,687 | 185,781 | 1,755,120 | 2,836,588 |
| Total Investments | 2,474,326 | 14,916,114 | 19,909,497 | 37,299,937 |
| | | | | |
| Foreign Exchange Contracts and Options | — | 98,748 | — | 98,748 |
| Other Derivatives | — | 10,001 | 35,309 (1) | 45,310 |
| Total Assets | $2,474,326 | $15,024,863 | $19,944,806 | $37,443,995 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Private Equity | $1,043,390 | $85,581 | $2,172,290 | $3,301,261 |
| Credit | — | 2,482,383 | 5,138,937 | 7,621,320 |
| Investments of Consolidated CFEs | — | 10,220,113 | 5,353,090 | 15,573,203 |
| Real Assets | 50,794 | — | 2,251,267 | 2,302,061 |
| Equity Method - Other | 60,282 | 247,748 | 1,076,709 | 1,384,739 |
| Other Investments | 864,872 | 134,404 | 1,760,011 | 2,759,287 |
| Total Investments | 2,019,338 | 13,170,229 | 17,752,304 | 32,941,871 |
| | | | | |
| Foreign Exchange Contracts and Options | — | 96,584 | — | 96,584 |
| Other Derivatives | — | 33,125 | 51,949 (1) | 85,074 |
| Total Assets | $2,019,338 | $13,299,938 | $17,804,253 | $33,123,529 |

(1) Includes derivative assets that were valued using a third-party valuation firm. The approach used to estimate the fair value of these derivative assets was generally the discounted cash flow method, which includes consideration of the current portfolio, projected portfolio construction, projected portfolio realizations, portfolio volatility (based on the volatility, correlation, and size of each underlying asset class), and the discounting of future cash flows to the reporting date.

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Notes to Condensed Consolidated Financial Statements (Continued)

Liabilities, at fair value:

| | September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Level I | Level II | Level III | | Total |
| Securities Sold Short | $513,442 | $— | $— | | $513,442 |
| Foreign Exchange Contracts and Options | — | 102,018 | — | | 102,018 |
| Unfunded Revolver Commitments | — | — | 45,170 | (1) | 45,170 |
| Other Derivatives | — | 13,038 | 27,700 | (2) | 40,738 |
| Debt Obligations of Consolidated CFEs | — | 11,562,503 | 1,083,107 | | 12,645,610 |
| Total Liabilities | $513,442 | $11,677,559 | $1,155,977 | | $13,346,978 |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Level I | Level II | Level III | | Total |
| Securities Sold Short | $692,007 | $— | $— | | $692,007 |
| Foreign Exchange Contracts and Options | — | 260,948 | — | | 260,948 |
| Unfunded Revolver Commitments | — | — | 17,629 | (1) | 17,629 |
| Other Derivatives | — | 27,581 | 41,800 | (2) | 69,381 |
| Debt Obligations of Consolidated CFEs | — | 10,347,980 | 5,238,236 | | 15,586,216 |
| Total Liabilities | $692,007 | $10,636,509 | $5,297,665 | | $16,626,181 |

(1) These unfunded revolver commitments are classified as Level III within the fair value hierarchy and valued using the same valuation methodologies as KKR's Level III credit investments.

(2) Includes options issued in connection with the acquisition of the equity interest in Marshall Wace and its affiliates in November 2015 to increase KKR's ownership interest up to 39.9% in periodic increments. The options are valued using a Monte-Carlo simulation valuation methodology. Key inputs used in this methodology that require estimates include Marshall Wace's dividend yield, assets under management volatility and equity volatility. See Note 4 "Investments."

The following tables summarize changes in investments and debt obligations reported at fair value for which Level III inputs have been used to determine fair value for the three and nine months ended September 30, 2018 and 2017, respectively:

| | For the Three Months Ended September 30, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level III Investments | | | | | | | Level III Debt Obligations |
| | Private Equity | Credit | Investments of Consolidated CFEs | Real Assets | Equity Method - Other | Other Investments | Total | Debt Obligations of Consolidated CFEs |
| Balance, Beg. of Period | $5,072,722 | $6,083,708 | $1,104,514 | $3,290,020 | $1,253,565 | $1,701,823 | $18,506,352 | $1,091,346 |
| Transfers In / (Out) Due to Changes in Consolidation | — | — | — | — | — | — | — | — |
| Transfers In | — | 154,255 | — | — | — | 8,710 | 162,965 | — |
| Transfers Out | — | — | — | — | — | — | — | — |
| Asset Purchases / Debt Issuances | 448,252 | 1,049,608 | — | 171,213 | 223,230 | 138,896 | 2,031,199 | — |
| Sales / Paydowns | (11,851) | (518,495) | (2,706) | (277,369) | (80,624) | (136,801) | (1,027,846) | — |
| Settlements | — | 15,026 | — | — | — | — | 15,026 | (2,706) |
| Net Realized Gains (Losses) | 5,297 | (3,615) | — | 52,753 | 15,439 | 43,686 | 113,560 | — |
| Net Unrealized Gains (Losses) | 409,808 | (272,838) | (5,734) | 42,865 | (8,758) | (1,194) | 164,149 | (5,533) |
| Change in Other Comprehensive Income | — | (55,908) | — | — | — | — | (55,908) | — |
| Balance, End of Period | $5,924,228 | $6,451,741 | $1,096,074 | $3,279,482 | $1,402,852 | $1,755,120 | $19,909,497 | $1,083,107 |
| Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date | $410,054 | $(273,139) | $(5,734) | $69,555 | $(1,092) | $50,199 | $249,843 | $(5,533) |

| | For the Three Months Ended September 30, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level III Investments | | | | | | | Level III Debt Obligations |
| | Private Equity | Credit | Investments of Consolidated CFEs | Real Assets | Equity Method - Other | Other Investments | Total | Debt Obligations of Consolidated CFEs |
| Balance, Beg. of Period | $2,394,498 | $3,865,070 | $5,447,250 | $2,423,419 | $571,575 | $1,771,627 | $16,473,439 | $5,333,203 |
| Transfers In / (Out) Due to Changes in Consolidation | — | — | — | — | — | — | — | — |
| Transfers In | — | — | — | — | — | — | — | — |
| Transfers Out | — | (4,187) | — | — | — | — | (4,187) | — |
| Asset Purchases / Debt Issuances | 98,955 | 1,112,297 | — | 62,453 | 4,457 | 35,700 | 1,313,862 | — |
| Sales / Paydowns | (56,193) | (224,135) | (17,022) | (361,451) | (28,864) | (45,887) | (733,552) | — |
| Settlements | — | 27,528 | — | — | — | — | 27,528 | (17,022) |
| Net Realized Gains (Losses) | 7,182 | (6,896) | — | 24,479 | 6,282 | (29,943) | 1,104 | — |
| Net Unrealized Gains (Losses) | 163,682 | (27,876) | (20,112) | 53,100 | 2,088 | 38,514 | 209,396 | (20,998) |
| Change in Other Comprehensive Income | — | (8,927) | — | — | — | — | (8,927) | — |
| Balance, End of Period | $2,608,124 | $4,732,874 | $5,410,116 | $2,202,000 | $555,538 | $1,770,011 | $17,278,663 | $5,295,183 |
| Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date | $163,682 | $(40,131) | $(20,112) | $68,239 | $5,225 | $38,514 | $215,417 | $(20,998) |

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Notes to Condensed Consolidated Financial Statements (Continued)

| | For the Nine Months Ended September 30, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level III Investments | | | | | | | Level III Debt Obligations |
| | Private Equity | Credit | Investments of Consolidated CFEs | Real Assets | Equity Method - Other | Other Investments | Total | Debt Obligations of Consolidated CFEs |
| Balance, Beg. of Period | $2,172,290 | $5,138,937 | $5,353,090 | $2,251,267 | $1,076,709 | $1,760,011 | $17,752,304 | $5,238,236 |
| Transfers In / (Out) Due to Changes in Consolidation | 928,217 | — | (4,153,641) | — | — | — | (3,225,424) | (4,045,957) |
| Transfers In | — | 154,255 | — | — | — | 8,710 | 162,965 | — |
| Transfers Out | (52,568) | — | — | — | — | — | (52,568) | — |
| Asset Purchases / Debt Issuances | 2,184,987 | 2,943,849 | — | 1,135,699 | 424,015 | 297,517 | 6,986,067 | — |
| Sales / Paydowns | (142,067) | (1,322,619) | (28,533) | (413,992) | (119,733) | (280,715) | (2,307,659) | — |
| Settlements | — | (35,474) | — | — | — | — | (35,474) | (17,975) |
| Net Realized Gains (Losses) | 41,687 | 6,550 | 13,000 | 39,116 | (121,115) | 20,755 | (7) | — |
| Net Unrealized Gains (Losses) | 791,682 | (334,387) | (87,842) | 267,392 | 142,976 | (51,158) | 728,663 | (91,197) |
| Change in Other Comprehensive Income | — | (99,370) | — | — | — | — | (99,370) | — |
| Balance, End of Period | $5,924,228 | $6,451,741 | $1,096,074 | $3,279,482 | $1,402,852 | $1,755,120 | $19,909,497 | $1,083,107 |
| Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date | $811,622 | $(326,419) | $(87,842) | $264,630 | $9,277 | $(13,633) | $657,635 | $(91,197) |

| | For the Nine Months Ended September 30, 2017 | |
|---|---|---|
| | Level III Investments | Level III Debt |

| | Private Equity | Credit | Investments of Consolidated CFEs | Real Assets | Equity Method - Other | Other Investments | Total | Obligations Debt Obligations of Consolidated CFEs |
|---|---|---|---|---|---|---|---|---|
| Balance, Beg. of Period | $1,559,559 | $3,290,361 | $5,406,220 | $1,807,128 | $570,522 | $1,767,573 | $14,401,363 | $5,294,741 |
| Transfers In / (Out) Due to Changes in Consolidation | — | (95,962) | — | — | — | — | (95,962) | — |
| Transfers In | — | — | — | — | — | — | — | — |
| Transfers Out | — | (4,187) | — | — | — | (1,496) | (5,683) | — |
| Asset Purchases / Debt Issuances | 923,460 | 2,056,195 | — | 667,681 | 15,589 | 259,204 | 3,922,129 | — |
| Sales / Paydowns | (228,676) | (942,459) | (34,957) | (469,092) | (49,842) | (188,623) | (1,913,649) | — |
| Settlements | — | 46,653 | — | — | — | — | 46,653 | (34,957) |
| Net Realized Gains (Losses) | 7,871 | (109,525) | — | (34,208) | 6,908 | (53,384) | (182,338) | — |
| Net Unrealized Gains (Losses) | 345,910 | 476,920 | 38,853 | 230,491 | 12,361 | (13,263) | 1,091,272 | 35,399 |
| Change in Other Comprehensive Income | — | 14,878 | — | — | — | — | 14,878 | — |
| Balance, End of Period | $2,608,124 | $4,732,874 | $5,410,116 | $2,202,000 | $555,538 | $1,770,011 | $17,278,663 | $5,295,183 |
| Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities related to Level III Assets and Liabilities still held as of the Reporting Date | $345,910 | $367,269 | $38,853 | $175,183 | $15,498 | $(13,263) | $929,450 | $35,399 |

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Total realized and unrealized gains and losses recorded for Level III assets and liabilities are reported in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations.

The following table presents additional information about valuation methodologies and significant unobservable inputs used for investments and debt obligations that are measured at fair value and categorized within Level III as of September 30, 2018:

| | Fair Value September 30, 2018 | Valuation Methodologies | Unobservable Input(s) (1) | Weighted Average (2) | Range | Impact to Valuation from an Increase in Input (3) |
|---|---|---|---|---|---|---|
| Private Equity | $ 5,924,228 | | | | | |
| Private Equity | $ 3,808,759 | Inputs to market comparables and discounted cash flow and transaction price | Illiquidity Discount | 5.6% | 5.0% - 15.0% | Decrease |
| | | | Weight Ascribed to Market Comparables | 27.5% | 0.0% - 50.0% | (4) |
| | | | Weight Ascribed to Discounted Cash Flow | 69.8% | 5.0% - 100.0% | (5) |
| | | | Weight Ascribed to Transaction Price | 2.7% | 0.0% - 90.0% | (6) |
| | | Market comparables | Enterprise Value/LTM EBITDA Multiple | 14.7x | 6.6x - 29.5x | Increase |
| | | | Enterprise Value/Forward EBITDA Multiple | 15.2x | 5.8x - 20.2x | Increase |
| | | Discounted cash flow | Weighted Average Cost of Capital | 10.4% | 6.1% - 13.6% | Decrease |
| | | | Enterprise Value/LTM EBITDA Exit Multiple | 12.0x | 5.2x - 14.0x | Increase |
| Growth Equity | $ 2,115,469 | Inputs to market comparables, discounted cash flow and milestones | Illiquidity Discount | 11.5% | 10.0% - 20.0% | Decrease |
| | | | Weight Ascribed to Market Comparables | 29.1% | 0.0% - 100.0% | (4) |
| | | | Weight Ascribed to Discounted Cash Flow | 10.8% | 0.0% - 75.0% | (5) |
| | | | Weight Ascribed to Milestones | 60.1% | 0.0% - 100.0% | (6) |
| | | Scenario Weighting | Base | 58.4% | 40.0% - 80.0% | Increase |
| | | | Downside | 17.0% | 5.0% - 30.0% | Decrease |
| | | | Upside | 24.6% | 10.0% - 45.0% | Increase |
| Credit | $ 6,451,741 | Yield Analysis | Yield | 7.0% | 3.5% - 26.5% | Decrease |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Net Leverage | 1.8x | 0.5x - 32.1x | Decrease |
| | | | | EBITDA Multiple | 9.4x | 0.1x - 32.3x | Increase |
| Investments of Consolidated CFEs | $ 1,096,074 | (9) | | | | | |
| Debt Obligations of Consolidated CFEs | $ 1,083,107 | | Discounted cash flow | Yield | 6.4% | 2.4% - 16.5% | Decrease |
| Real Assets | $ 3,279,482 | (10) | | | | | |
| Energy | $ 1,878,488 | | Discounted cash flow | Weighted Average Cost of Capital | 10.4% | 9.5% - 14.2% | Decrease |
| | | | | Average Price Per BOE (8) | $47.06 | $43.86 - $49.98 | Increase |

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Notes to Condensed Consolidated Financial Statements (Continued)

| | Fair Value September 30, 2018 | | Valuation Methodologies | Unobservable Input(s) (1) | Weighted Average (2) | Range | Impact to Valuation from an Increase in Input (3) |
|---|---|---|---|---|---|---|---|
| Real Estate | $ 1,182,047 | | Inputs to direct income capitalization and discounted cash flow | Weight Ascribed to Direct Income Capitalization | 35.9% | 0.0% - 100.0% | (7) |
| | | | | Weight Ascribed to Discounted Cash Flow | 64.1% | 0.0% - 100.0% | (5) |
| | | | Direct income capitalization | Current Capitalization Rate | 5.7% | 0.6% - 12.0% | Decrease |
| | | | Discounted cash flow | Unlevered Discount Rate | 8.6% | 4.5% - 18.0% | Decrease |
| Equity Method - Other | $ 1,402,852 | | | Illiquidity Discount | 9.8% | 5.0% - 15.0% | Decrease |
| | | | Inputs to market comparables, discounted cash flow and transaction price | Weight Ascribed to Market Comparables | 46.6% | 0.0% - 50.0% | (4) |
| | | | | Weight Ascribed to Discounted Cash Flow | 45.6% | 0.0% - 50.0% | (5) |
| | | | | Weight Ascribed to Transaction Price | 7.8% | 0.0% - 100.0% | (6) |
| | | | Market comparables | Enterprise Value/LTM EBITDA Multiple | 11.7x | 6.6x - 13.0x | Increase |
| | | | | Enterprise Value/Forward EBITDA Multiple | 10.7x | 5.8x - 13.5x | Increase |
| | | | Discounted cash flow | Weighted Average Cost of Capital | 8.2% | 5.9% - 11.4% | Decrease |
| | | | | Enterprise Value/LTM EBITDA Exit Multiple | 10.6x | 6.0x - 12.5x | Increase |
| Other Investments | $ 1,755,120 | (11) | | Illiquidity Discount | 10.1% | 5.0% - 20.0% | Decrease |
| | | | Inputs to market comparables, discounted cash flow and transaction price | Weight Ascribed to Market Comparables | 26.4% | 0.0% - 100.0% | (4) |
| | | | | Weight Ascribed to Discounted Cash Flow | 41.9% | 0.0% - 100.0% | (5) |
| | | | | Weight Ascribed to Transaction Price | 31.7% | 0.0% - 100.0% | (6) |
| | | | Market comparables | Enterprise Value/LTM EBITDA Multiple | 9.9x | 1.2x - 13.6x | Increase |
| | | | | Enterprise Value/Forward EBITDA Multiple | 8.7x | 0.7x - 12.0x | Increase |
| | | | Discounted cash flow | Weighted Average Cost of Capital | 16.1% | 7.5% - 30.0% | Decrease |
| | | | | Enterprise Value/LTM EBITDA Exit Multiple | 7.5x | 6.3x - 8.5x | Increase |

(1) In determining certain of these inputs, management evaluates a variety of factors including economic conditions, industry and market developments, market valuations of comparable companies and company specific developments including exit strategies and realization opportunities. Management has determined that market participants would take these inputs into account when valuing the investments and debt obligations. LTM means last twelve months and EBITDA means earnings before interest, taxes, depreciation and amortization.

(2) Inputs were weighted based on the fair value of the investments included in the range.

(3) Unless otherwise noted, this column represents the directional change in the fair value of the Level III investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant increases and decreases in these inputs in isolation could result in significantly higher or lower fair value measurements.

(4) The directional change from an increase in the weight ascribed to the market comparables approach would increase the fair value of the Level III investments if the market comparables approach results in a higher valuation than the discounted cash flow approach and transaction price. The opposite would be true if the market comparables approach results in a lower valuation than the discounted cash flow approach and transaction price.

(5) The directional change from an increase in the weight ascribed to the discounted cash flow approach would increase the fair value of the Level III investments if the discounted cash flow approach results in a higher valuation than the market comparables approach, transaction price and direct income capitalization approach. The opposite would be true if the discounted cash flow approach results in a lower valuation than the market comparables approach, transaction price and direct income capitalization approach.

(6) The directional change from an increase in the weight ascribed to the transaction price or milestones would increase the fair value of the Level III investments if the transaction price or milestones results in a higher valuation than the market comparables and discounted cash flow approach. The opposite would be true if the transaction price or milestones results in a lower valuation than the market comparables approach and discounted cash flow approach.

(7) The directional change from an increase in the weight ascribed to the direct income capitalization approach would increase the fair value of the Level III investments if the direct income capitalization approach results in a higher valuation than the discounted cash flow approach. The opposite would be true if the direct income capitalization approach results in a lower valuation than the discounted cash flow approach.

(8) The total energy fair value amount includes multiple investments (in multiple locations throughout North America) that are held in multiple investment funds and produce varying quantities of oil, condensate, natural gas liquids, and natural gas. Commodity price may be measured using a common volumetric equivalent where one barrel of oil equivalent ("BOE"), is determined using the ratio of six thousand cubic feet of natural gas to one barrel of oil, condensate or natural gas liquids. The price per BOE is provided to show the aggregate of all price inputs for the various investments over a common volumetric equivalent although the valuations for specific investments may use price inputs specific to the asset for purposes of our valuations. The discounted cash flows include forecasted production of liquids (oil, condensate, and natural gas liquids) and natural gas with a forecasted revenue ratio of approximately 90% liquids and 10% natural gas.

(9) KKR measures CMBS investments on the basis of the fair value of the financial liabilities of the CMBS vehicle. See Note 2 "Summary of Significant Accounting Policies."

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Notes to Condensed Consolidated Financial Statements (Continued)

(10) Includes one Infrastructure investment for $218.9 million that was valued using a discounted cash flow analysis. The significant inputs used included the weighted average cost of capital 7.1% and the enterprise value/LTM EBITDA Exit Multiple 12.0x.

(11) Consists primarily of investments in common stock, preferred stock, warrants and options of companies that are not private equity, real assets, credit, equity method - other or investments of consolidated CFEs.

In the table above, certain private equity investments may be valued at cost for a period of time after an acquisition as the best indicator of fair value. In addition, certain valuations of private equity investments may be entirely or partially derived by reference to observable valuation measures for a pending or consummated transaction.

The various unobservable inputs used to determine the Level III valuations may have similar or diverging impacts on valuation. Significant increases and decreases in these inputs in isolation and interrelationships between those inputs could result in significantly higher or lower fair value measurements as noted in the table above.

## 6. FAIR VALUE OPTION

The following table summarizes the financial instruments for which the fair value option has been elected:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Private Equity | $3,012 | $3,744 |
| Credit | 4,958,922 | 4,381,519 |
| Investments of Consolidated CFEs | 13,293,505 | 15,573,203 |
| Real Assets | 321,644 | 343,820 |
| Equity Method - Other | 1,744,961 | 1,384,739 |
| Other Investments | 264,218 | 344,996 |
| Total | $20,586,262 | $22,032,021 |
| | | |
| Liabilities | | |
| Debt Obligations of Consolidated CFEs | $12,645,610 | $15,586,216 |
| Total | $12,645,610 | $15,586,216 |

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Notes to Condensed Consolidated Financial Statements (Continued)

The following table presents the net realized and net change in unrealized gains (losses) on financial instruments on which the fair value option was elected:

| | Three Months Ended September 30, 2018 | | | Three Months Ended September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Net Realized Gains (Losses) | Net Unrealized Gains (Losses) | Total | Net Realized Gains (Losses) | Net Unrealized Gains (Losses) | Total |
| Assets | | | | | | |
| Private Equity | $— | $37 | $37 | $2,981 | $(6,692) | $(3,711) |
| Credit | (2,772) | (119,019) | (121,791) | 6,878 | (10,835) | (3,957) |
| Investments of Consolidated CFEs | (1,132) | 70,963 | 69,831 | (83,797) | 43,905 | (39,892) |
| Real Assets | 5,370 | (5,114) | 256 | 12,611 | 10,498 | 23,109 |
| Equity Method - Other | 15,062 | 18,696 | 33,758 | 6,282 | (29) | 6,253 |
| Other Investments | (2,462) | (7,668) | (10,130) | (5,457) | 12,348 | 6,891 |
| Total | $14,066 | $(42,105) | $(28,039) | $(60,502) | $49,195 | $(11,307) |
| Liabilities | | | | | | |
| Debt Obligations of Consolidated CFEs | (8,460) | (55,338) | (63,798) | 13,403 | 24,483 | 37,886 |
| Total | $(8,460) | $(55,338) | $(63,798) | $13,403 | $24,483 | $37,886 |

| | Nine Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Net Realized Gains (Losses) | Net Unrealized Gains (Losses) | Total | Net Realized Gains (Losses) | Net Unrealized Gains (Losses) | Total |
| Assets | | | | | | |
| Private Equity | $(4,907) | $5,390 | $483 | $3,670 | $33,803 | $37,473 |
| Credit | (155,879) | (137,806) | (293,685) | (401,720) | 74,003 | (327,717) |
| Investments of Consolidated CFEs | (79,184) | (13,954) | (93,138) | (88,677) | 71,952 | (16,725) |
| Real Assets | 8,774 | 4,070 | 12,844 | 12,425 | 58,108 | 70,533 |
| Equity Method - Other | (121,514) | 177,385 | 55,871 | 6,908 | (3,075) | 3,833 |
| Other | (11,578) | (11,294) | (22,872) | (27,602) | 25,158 | (2,444) |
| Total | $(364,288) | $23,791 | $(340,497) | $(494,996) | $259,949 | $(235,047) |
| Liabilities | | | | | | |
| Debt Obligations of Consolidated CFEs | 5,172 | 144,120 | 149,292 | 53,849 | (30,490) | 23,359 |
| Total | $5,172 | $144,120 | $149,292 | $53,849 | $(30,490) | $23,359 |

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Notes to Condensed Consolidated Financial Statements (Continued)

7. NET INCOME (LOSS) ATTRIBUTABLE TO KKR & CO. INC. PER SHARE OF CLASS A COMMON STOCK

For the three and nine months ended September 30, 2018 and 2017, basic and diluted Net Income (Loss) attributable to KKR & Co. Inc. per share of Class A common stock were calculated as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net Income (Loss) Attributable to KKR & Co. Inc. Class A Common Stockholders | $640,198 | $153,563 | $1,490,681 | $818,552 |
| Excess of carrying value over consideration transferred on redemption of KFN 7.375% Series A LLC Preferred Shares | — | — | 3,102 | — |
| Net Income (Loss) Available to KKR & Co. Inc. Class A Common Stockholders | $640,198 | $153,563 | $1,493,783 | $818,552 |
| | | | | |
| Basic Net Income (Loss) Per Share of Class A Common Stock | | | | |
| Weighted Average Shares of Class A Common Stock Outstanding - Basic | 525,240,214 | 471,758,886 | 507,981,387 | 463,941,084 |
| Net Income (Loss) Attributable to KKR & Co. Inc. Per Share of Class A Common Stock - Basic | $ 1.22 | $ 0.33 | $ 2.94 | $ 1.76 |
| Diluted Net Income (Loss) Per Share of Class A Common Stock | | | | |
| Weighted Average Shares of Class A Common Stock Outstanding - Basic | 525,240,214 | 471,758,886 | 507,981,387 | 463,941,084 |
| Weighted Average Unvested Shares of Class A Common Stock and Other Exchangeable Securities | 20,432,739 | 35,114,291 | 20,485,003 | 37,674,551 |
| Weighted Average Shares of Class A Common Stock Outstanding - Diluted | 545,672,953 | 506,873,177 | 528,466,390 | 501,615,635 |
| Net Income (Loss) Attributable to KKR & Co. Inc. Per Share of Class A Common Stock - Diluted | $ 1.17 | $ 0.30 | $ 2.83 | $ 1.63 |

Weighted Average Shares of Class A Common Stock Outstanding - Diluted primarily includes unvested equity awards that have been granted under the Amended and Restated KKR & Co. Inc. 2010 Equity Incentive Plan (the "Equity Incentive Plan") as well as exchangeable equity securities issued in connection with the acquisition of Avoca. Vesting or exchanges of these equity interests dilute KKR & Co. Inc. and KKR Holdings pro rata in accordance with their respective ownership interests in the KKR Group Partnerships.

For the three and nine months ended September 30, 2018 and 2017, KKR Holdings units have been excluded from the calculation of Net Income (Loss) Attributable to KKR & Co. Inc. Per Share of Class A Common Stock - Diluted since the exchange of these units would not dilute KKR's respective ownership interests in the KKR Group Partnerships.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Weighted Average KKR Holdings Units | 303,531,232 | 341,214,527 | 319,080,563 | 346,716,489 |

Additionally, for the three and nine months ended September 30, 2018, 5.0 million shares of KKR Class A common stock subject to a market price-based vesting condition ("Market Condition Awards") were excluded from the calculation of Net Income (Loss) Attributable to KKR & Co. Inc. Per Share of Class A Common Stock - Diluted since the vesting conditions have not been satisfied. See Note 12 "Equity Based Compensation."

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Notes to Condensed Consolidated Financial Statements (Continued)

## 8. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Other Assets consist of the following:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Unsettled Investment Sales (1) | $114,149 | $134,781 |
| Receivables | 52,223 | 138,109 |
| Due from Broker (2) | 428,928 | 682,403 |
| Oil & Gas Assets, net (3) | 221,901 | 252,371 |
| Deferred Tax Assets, net | 298,336 | 131,944 |
| Interest Receivable | 227,090 | 189,785 |
| Fixed Assets, net (4) | 422,388 | 364,203 |
| Foreign Exchange Contracts and Options (5) | 98,748 | 96,584 |
| Intangible Assets, net (6) | 10,674 | 129,178 |
| Goodwill (7) | 83,500 | 83,500 |
| Derivative Assets | 45,310 | 85,074 |
| Deposits | 7,646 | 16,330 |
| Prepaid Taxes | 79,769 | 83,371 |
| Prepaid Expenses | 29,306 | 25,677 |
| Deferred Financing Costs | 6,761 | 7,534 |
| Other | 121,018 | 110,231 |
| Total | $2,247,747 | $2,531,075 |

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

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

(3) Includes proved and unproved oil and natural gas properties under the successful efforts method of accounting, which is net of impairment write-downs, accumulated depreciation, depletion and amortization. Depreciation, depletion and amortization amounted to $4,255 and $5,466 for the three months ended September 30, 2018 and 2017, respectively, and $17,800 and $18,563 for the nine months ended September 30, 2018 and 2017, respectively.

(4) Net of accumulated depreciation and amortization of $168,018 and $156,859 as of September 30, 2018 and December 31, 2017, respectively. Depreciation and amortization expense of $3,649 and $3,710 for the three months ended September 30, 2018 and 2017, respectively, and $11,133 and $11,774 for the nine months ended September 30, 2018 and 2017, respectively, is included in General, Administrative and Other in the accompanying condensed consolidated statements of operations.

(5) Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign currency denominated investments. Such instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments.

(6) Net of accumulated amortization of $63,188 and $61,348 as of September 30, 2018 and December 31, 2017, respectively. Amortization expense of $681 and $2,473 for the three months ended September 30, 2018 and 2017, respectively, and $7,028 and $13,901 for the nine months ended September 30, 2018 and 2017, respectively, is included in General, Administrative and Other in the accompanying condensed consolidated statements of operations.

(7) As of September 30, 2018, the carrying value of goodwill is recorded and assessed for impairment at the reporting unit.

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

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Amounts Payable to Carry Pool [1] | $1,300,165 | $1,220,559 |
| Unsettled Investment Purchases [2] | 605,442 | 885,945 |
| Securities Sold Short [3] | 513,442 | 692,007 |
| Derivative Liabilities | 40,738 | 69,381 |
| Accrued Compensation and Benefits | 404,797 | 35,953 |
| Interest Payable | 183,363 | 168,673 |
| Foreign Exchange Contracts and Options [4] | 102,018 | 260,948 |
| Accounts Payable and Accrued Expenses | 126,261 | 152,916 |
| Deferred Rent | 13,997 | 17,441 |
| Taxes Payable | 70,040 | 35,933 |
| Uncertain Tax Positions Reserve | 59,798 | 58,369 |
| Other Liabilities | 265,257 | 56,125 |
| Total | $3,685,318 | $3,654,250 |

(1) Represents the amount of carried interest payable to principals, professionals and other individuals with respect to KKR's active funds and co-investment vehicles that provide for carried interest.

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

(3) Represents the obligations of KKR to deliver a specified security at a future point in time. Such securities are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments.

(4) Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign currency denominated investments. Such instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments.

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9. VARIABLE INTEREST ENTITIES

Consolidated VIEs

KKR consolidates certain VIEs in which it is determined that KKR is the primary beneficiary as described in Note 2 "Summary of Significant Accounting Policies" and which are predominately CFEs and certain investment funds. The primary purpose of these VIEs is to provide strategy specific investment opportunities to earn capital gains, current income or both in exchange for management and performance based fees or carried interest. KKR's investment strategies for these VIEs differ by product; however, the fundamental risks have similar characteristics, including loss of invested capital and loss of management fees and carried interests. KKR does not provide performance guarantees and has no other financial obligation to provide funding to these consolidated VIEs, beyond amounts previously committed, if any.

Unconsolidated VIEs

KKR holds variable interests in certain VIEs which are not consolidated as it has been determined that KKR is not the primary beneficiary. VIEs that are not consolidated include certain investment funds sponsored by KKR and certain CLO vehicles.

Investments in Unconsolidated Investment Funds

KKR's investment strategies differ by investment fund; however, the fundamental risks have similar characteristics, including loss of invested capital and loss of management fees and carried interests. KKR's maximum exposure to loss as a result of its investments in the unconsolidated investment funds is the carrying value of such investments, including KKR's capital interest and any unrealized carried interest, which was approximately $4.4 billion at September 30, 2018. Accordingly, disaggregation of KKR's involvement by type of unconsolidated investment fund would not provide more useful information. For these unconsolidated investment funds in which KKR is the sponsor, KKR may have an obligation as general partner to provide commitments to such investment funds. As of September 30, 2018, KKR's commitments to these unconsolidated investment funds was $1.9 billion. KKR has not provided any financial support other than its obligated amount as of September 30, 2018.

Investments in Unconsolidated CLO Vehicles

KKR provides collateral management services for, and has made nominal investments in, certain CLO vehicles that it does not consolidate. KKR's investments in the unconsolidated CLO vehicles, if any, are carried at fair value in the condensed consolidated statements of financial condition. KKR earns management fees, including subordinated collateral management fees, for managing the collateral of the CLO vehicles. As of September 30, 2018, combined assets under management in the pools of unconsolidated CLO vehicles were $0.5 billion. KKR's maximum exposure to loss as a result of its investments in the residual interests of unconsolidated CLO vehicles is the carrying value of such investments, which was $27.2 million as of September 30, 2018. CLO investors in the CLO vehicles may only use the assets of the CLO to settle the debt of the related CLO, and otherwise have no recourse against KKR for any losses sustained in the CLO structures.

As of September 30, 2018 and December 31, 2017, the maximum exposure to loss, before allocations to the carry pool and noncontrolling interests, if any, for those VIEs in which KKR is determined not to be the primary beneficiary but in which it has a variable interest is as follows:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Investments | $4,445,006 | $4,417,003 |
| Due from (to) Affiliates, net | 415,916 | 176,131 |
| Maximum Exposure to Loss | $4,860,922 | $4,593,134 |

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Notes to Condensed Consolidated Financial Statements (Continued)

10. DEBT OBLIGATIONS

KKR borrows and enters into credit agreements and issues debt for its general operating and investment purposes. In certain cases, KKR has majority-owned investment vehicles that make investments and purchase other assets with borrowings that are collateralized only by the investments and assets they own. Additionally, certain of KKR's consolidated investment funds borrow to meet financing needs of their operating and investing activities. KKR consolidates and reports KFN's debt obligations which are non-recourse to KKR beyond the assets of KFN.

Fund financing facilities have been established for the benefit of certain investment funds. When an investment fund borrows from the facility in which it participates, the proceeds from the borrowings are limited for their intended use by the borrowing investment fund. KKR's obligations with respect to these financing arrangements are generally limited to KKR's pro rata equity interest in such funds.

In addition, certain consolidated CFE vehicles issue debt securities to third-party investors which are collateralized by assets held by the CFE vehicle. Debt securities issued by CFEs are supported solely by the assets held at the CFEs and are not collateralized by assets of any other KKR entity. CFEs also may have warehouse facilities with banks to provide liquidity to the CFE. The CFE's debt obligations are non-recourse to KKR beyond the assets of the CFE.

KKR's borrowings consisted of the following:

| | September 30, 2018 | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Financing Available | Borrowing Outstanding | Fair Value | | Financing Available | Borrowing Outstanding | Fair Value | |
| Revolving Credit Facilities: | | | | | | | | |
| Corporate Credit Agreement | $1,000,000 | $— | $— | | $1,000,000 | $— | $— | |
| KCM Credit Agreement | 451,723 | — | — | | 487,656 | — | — | |
| KCM Short-Term Credit Agreement | 750,000 | — | — | | 750,000 | — | — | |
| Notes Issued: | | | | | | | | |
| KKR Issued 6.375% Notes Due 2020 (1) | — | 498,829 | 525,950 | (14) | — | 498,390 | 549,000 | (14) |
| KKR Issued 5.500% Notes Due 2043 (2) | — | 491,751 | 515,480 | (14) | — | 491,496 | 580,000 | (14) |
| KKR Issued 5.125% Notes Due 2044 (3) | — | 990,648 | 986,610 | (14) | — | 990,375 | 1,107,100 | (14) |
| KKR Issued 0.509% Notes Due 2023 (4) | — | 218,562 | 219,365 | (14) | — | — | — | |
| KKR Issued 0.764% Notes Due 2025 (5) | — | 43,243 | 43,757 | (14) | — | — | — | |
| KKR Issued 1.595% Notes Due 2038 (6) | — | 89,398 | 88,632 | (14) | — | — | — | |
| KFN Issued 5.500% Notes Due 2032 (7) | — | 493,447 | 500,852 | | — | 493,129 | 505,235 | |
| KFN Issued 5.200% Notes Due 2033 (8) | — | 118,260 | 116,657 | | — | — | — | |
| KFN Issued 5.400% Notes Due 2033 (9) | — | 68,660 | 69,426 | | — | — | — | |
| KFN Issued Junior Subordinated Notes (10) | — | 231,807 | 212,226 | | — | 236,038 | 201,828 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other Debt Obligations: | | | | | | | |
| Financing Facilities of Consolidated Funds and Other (11) | 3,025,531 | 4,375,957 | 4,375,957 | | 2,056,096 | 2,898,215 | 2,898,215 |
| CLO Senior Secured Notes (12) | — | 11,173,622 | 11,173,622 | | — | 10,055,686 | 10,055,686 |
| CLO Subordinated Notes (12) | — | 388,881 | 388,881 | | — | 292,294 | 292,294 |
| CMBS Debt Obligations (13) | — | 1,083,107 | 1,083,107 | | — | 5,238,236 | 5,238,236 |
| | $5,227,254 | $20,266,172 | $20,300,522 | | $4,293,752 | $21,193,859 | $21,427,594 |

(1) $500 million aggregate principal amount of 6.375% senior notes of KKR due 2020. Borrowing outstanding is presented net of (i) unamortized note discount and (ii) unamortized debt issuance costs of $0.8 million and $1.0 million as of September 30, 2018 and December 31, 2017, respectively.

(2) $500 million aggregate principal amount of 5.500% senior notes of KKR due 2043. Borrowing outstanding is presented net of (i) unamortized note discount and (ii) unamortized debt issuance costs of $3.6 million and $3.7 million as of September 30, 2018 and December 31, 2017, respectively.

(3) $1.0 billion aggregate principal amount of 5.125% senior notes of KKR due 2044. Borrowing outstanding is presented net of (i) unamortized note discount (net of premium) and (ii) unamortized debt issuance costs of $8.1 million and $8.3 million as of September 30, 2018 and December 31, 2017, respectively.

(4) ¥25 billion (or $219.9 million) aggregate principal amount of 0.509% senior notes of KKR due 2023. Borrowing outstanding is presented net of unamortized debt issuance costs of $1.3 million as of September 30, 2018. These senior notes are denominated in Japanese Yen ("JPY").

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(5) ¥5.0 billion (or $44.0 million) aggregate principal amount of 0.764% senior notes of KKR due 2025. Borrowing outstanding is presented net of unamortized debt issuance costs of $0.7 million as of September 30, 2018. These senior notes are denominated in JPY.

(6) ¥10.3 billion (or $90.6 million) aggregate principal amount of 1.595% senior notes of KKR due 2038. Borrowing outstanding is presented net of unamortized debt issuance costs of $1.2 million as of September 30, 2018. These senior notes are denominated in JPY.

(7) KKR consolidates KFN and thus reports KFN's outstanding $500.0 million aggregate principal amount of 5.500% senior notes due 2032. Borrowing outstanding is presented net of (i) unamortized note discount and (ii) unamortized debt issuance costs of $4.5 million and $4.7 million as of September 30, 2018 and December 31, 2017, respectively. These debt obligations are classified as Level III within the fair value hierarchy and valued using the same valuation methodologies as KKR's Level III credit investments.

(8) KKR consolidates KFN and thus reports KFN's outstanding $120.0 million aggregate principal amount of 5.200% senior notes due 2033. Borrowing outstanding is presented net of unamortized debt issuance costs of $1.7 million as of September 30, 2018. These debt obligations are classified as Level III within the fair value hierarchy and valued using the same valuation methodologies as KKR's Level III credit investments.

(9) KKR consolidates KFN and thus reports KFN's outstanding $70.0 million aggregate principal amount of 5.400% senior notes due 2033. Borrowing outstanding is presented net of unamortized debt issuance costs of $1.3 million as of September 30, 2018. These debt obligations are classified as Level III within the fair value hierarchy and valued using the same valuation methodologies as KKR's Level III credit investments.

(10) KKR consolidates KFN and thus reports KFN's outstanding $258.5 million aggregate principal amount of junior subordinated notes. The weighted average interest rate is 4.8% and 3.8% and the weighted average years to maturity is 18.0 years and 19.0 years as of September 30, 2018 and December 31, 2017, respectively. These debt obligations are classified as Level III within the fair value hierarchy and valued using the same valuation methodologies as KKR's Level III credit investments.

(11) Amounts include (i) borrowings at consolidated investment funds relating to financing arrangements with major financial institutions, generally to enable such investment funds to make investments prior to or without receiving capital from fund limited partners and (ii) borrowings by certain majority-owned investment vehicles that are collateralized only by the investments and assets they own. The weighted average interest rate is 4.5% and 4.2% as of September 30, 2018 and December 31, 2017, respectively. In addition, the weighted average years to maturity is 3.0 years and 3.6 years as of September 30, 2018 and December 31, 2017, respectively.

(12) CLO debt obligations are carried at fair value and are classified as Level II within the fair value hierarchy. See Note 5 "Fair Value Measurements."

(13) CMBS debt obligations are carried at fair value and are classified as Level III within the fair value hierarchy. See Note 5 "Fair Value Measurements."

(14) The notes are classified as Level II within the fair value hierarchy and fair value is determined by third party broker quotes.

Revolving Credit Facilities

KCM Credit Agreement

As of September 30, 2018 and December 31, 2017, no amounts were outstanding under the KCM Credit Agreement, however various letters of credit were outstanding in the amount of $48.3 million and $12.3 million, respectively, which reduce the overall capacity of the KCM Credit Agreement.

KCM Short-Term Credit Agreement

On June 28, 2018, KKR Capital Markets Holdings L.P. and certain other capital market subsidiaries of KKR & Co. Inc. (collectively, the “KCM Borrowers”) entered into a 364-day revolving credit agreement (the “KCM Revolver Agreement”) with Mizuho Bank, Ltd., as administrative agent. The KCM Revolver Agreement provides for revolving borrowings of up to $750 million, expires on June 27, 2019, and ranks pari passu with the existing $500 million credit facility provided by them for KKR's capital markets business. The prior 364-day revolving credit agreement, dated as of June 29, 2017, between the KCM Borrowers and Mizuho Bank, Ltd., as administrative agent, expired according to its terms on June 28, 2018. Borrowings under the KCM Revolver Agreement may only be used to facilitate the settlement of debt transactions syndicated by KKR’s capital markets business. Obligations under the KCM Revolver Agreement are limited to the KCM Borrowers, which are solely entities involved in KKR’s capital markets business, and liabilities under the KCM Revolver Agreement are non-recourse to other parts of KKR.

If a borrowing is made under the KCM Revolver Agreement, the interest rate will vary depending on the type of drawdown requested. If the borrowing is a Eurocurrency loan, it will be based on a LIBOR rate plus an applicable margin ranging between 1.25% and 2.50%, depending on the duration of the loan. If the borrowing is an ABR loan, it will be based on a base rate plus an applicable margin ranging between 0.25% and 1.50%, depending on the duration of the loan. A facility fee of 0.20% is also payable on the entire facility amount.

The KCM Revolver Agreement contains customary representations and warranties, events of default, and affirmative and negative covenants, including a financial covenant providing for a maximum debt to equity ratio for the KCM Borrowers. The

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KCM Borrowers’ obligations under the KCM Revolver Agreement are secured by certain assets of the KCM Borrowers, including a pledge of equity interests of certain subsidiaries of the KCM Borrowers.

Notes Issuances

KKR Issued 0.509% Senior Notes Due 2023, 0.764% Senior Notes Due 2025, and 1.595% Senior Notes Due 2038

On March 23, 2018, KKR Group Finance Co. IV LLC ("KKR Group Finance IV"), an indirect subsidiary of KKR & Co. Inc., completed the offering of ¥40.3 billion, aggregate principal amount of its (i) ¥25.0 billion 0.509% Senior Notes due 2023 (the "2023 Notes"), (ii) ¥5.0 billion 0.764% Senior Notes due 2025 (the "2025 Notes") and (iii) ¥10.3 billion 1.595% Senior Notes due 2038 (the "2038 Notes" and, together with the 2023 Notes and the 2025 Notes, the "JPY Notes"). The JPY Notes are guaranteed by KKR & Co. Inc. and KKR Management Holdings L.P., KKR Fund Holdings L.P. and KKR International Holdings L.P., each an indirect subsidiary of KKR & Co. Inc. (collectively with KKR & Co. Inc., the "Guarantors").

The 2023 Notes bear interest at a rate of 0.509% per annum and will mature on March 23, 2023 unless earlier redeemed. The 2025 Notes bear interest at a rate of 0.764% per annum and will mature on March 21, 2025 unless earlier redeemed. The 2038 Notes bear interest at a rate of 1.595% per annum and will mature on March 23, 2038 unless earlier redeemed. Interest on the JPY Notes accrues from March 23, 2018 and is payable semiannually in arrears on March 23 and September 23 of each year, commencing on September 23, 2018 and ending on the applicable maturity date. The JPY Notes are unsecured and unsubordinated obligations of KKR Group Finance IV. The JPY Notes are fully and unconditionally guaranteed, jointly and severally, by each of the Guarantors. The guarantees are unsecured and unsubordinated obligations of the Guarantors.

The indenture, as supplemented by the first supplemental indenture, related to the JPY Notes includes covenants, including limitations on KKR Group Finance IV's and the Guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding JPY Notes may declare the JPY Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the JPY Notes and any accrued and unpaid interest on the JPY Notes automatically become due and payable. KKR Group Finance IV may redeem the JPY Notes at its option, in whole but not in part, at a redemption price equal to 100% of the principal amount of the JPY Notes to be redeemed, together with interest accrued and unpaid to, but excluding, the date fixed for redemption, at any time, in the event of certain changes affecting taxation as provided in the JPY Indenture.

KFN Issued 5.200% Notes Due 2033

On February 12, 2018, KFN issued $120.0 million aggregate principal amount of 5.200% Senior Notes due 2033 (the "KFN 2033 Senior Notes"). The KFN 2033 Senior Notes are unsecured and unsubordinated obligations of KFN, which do not provide for recourse to KKR beyond the assets of KFN. The KFN 2033 Senior Notes are not guaranteed by the Guarantors. The KFN 2033 Senior Notes will mature on February 12, 2033, unless earlier redeemed or repurchased. The KFN 2033 Senior Notes bear interest at a rate of 5.200% per annum, accruing from February 12, 2018. Interest is payable semi-annually in arrears on February 12 and August 12 of each year.
The indenture, as supplemented by a first supplemental indenture, relating to the KFN 2033 Senior Notes includes covenants, including (i) limitations on KFN's ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of certain of its subsidiaries or merge, consolidate or sell, transfer

or lease assets, (ii) requirements that KFN maintain a minimum Consolidated Net Worth (as defined in the indenture) and (iii) requirements that KFN maintain a minimum Cash and Liquid Investments (as defined in the indenture). The indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding KFN 2033 Senior Notes may declare the KFN 2033 Senior Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the KFN 2033 Senior Notes and any accrued and unpaid interest on the KFN 2033 Senior Notes automatically becomes due and payable.

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Beginning on February 12, 2023, KFN may redeem the KFN 2033 Senior Notes in whole, but not in part, at KFN's option, at a redemption price equal to 100% of the outstanding principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. At any time prior to February 12, 2023, KFN may redeem the KFN 2033 Senior Notes in whole, but not in part, at KFN's option at any time, at a "make-whole" redemption price set forth in the KFN 2033 Senior Notes. If a change of control occurs, the KFN 2033 Senior Notes are subject to repurchase by the issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the KFN 2033 Senior Notes repurchased plus any accrued and unpaid interest on the KFN 2033 Senior Notes repurchased to, but not including, the date of repurchase.

KFN Issued 5.400% Notes Due 2033

On May 23, 2018, KFN issued $70.0 million aggregate principal amount of 5.400% Senior Notes due 2033 (the "KFN 5.400% Senior Notes"). The KFN 5.400% Senior Notes are unsecured and unsubordinated obligations of KFN, which do not provide for recourse to KKR beyond the assets of KFN. The KFN 5.400% Senior Notes are not guaranteed by the Guarantors. The KFN 5.400% Senior Notes will mature on May 23, 2033, unless earlier redeemed or repurchased. The KFN 5.400% Senior Notes bear interest at a rate of 5.400% per annum, accruing from May 23, 2018. Interest is payable semi-annually in arrears on May 23 and November 23 of each year.

The indenture, as supplemented by a second supplemental indenture, relating to the KFN 5.400% Senior Notes includes covenants, including (i) limitations on KFN's ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of certain of its subsidiaries or merge, consolidate or sell, transfer or lease assets, (ii) requirements that KFN maintain a minimum Consolidated Net Worth (as defined in the indenture) and (iii) requirements that KFN maintain minimum Cash and Liquid Investments (as defined in the indenture). The indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding KFN 5.400% Senior Notes may declare the KFN 5.400% Senior Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the KFN 5.400% Senior Notes and any accrued and unpaid interest on the KFN 5.400% Senior Notes automatically becomes due and payable.

Beginning on May 23, 2023, KFN may redeem the KFN 5.400% Senior Notes in whole, but not in part, at KFN's option, at a redemption price equal to 100% of the outstanding principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. At any time prior to May 23, 2023, KFN may redeem the KFN 5.400% Senior Notes in whole, but not in part, at KFN's option at any time, at a "make-whole" redemption price set forth in the KFN 5.400% Senior Notes. If a change of control occurs, the KFN 5.400% Senior Notes are subject to repurchase by the issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the KFN 5.400% Senior Notes repurchased plus any accrued and unpaid interest on the KFN 5.400% Senior Notes repurchased to, but not including, the date of repurchase.

Other Debt Obligations

Financing Facilities of Consolidated Funds and Other

Certain of KKR's consolidated investment funds have entered into financing arrangements with financial institutions, generally to provide liquidity to such investment funds. These financing arrangements are generally not direct obligations of the general partners of KKR's investment funds, beyond KKR's capital interest, or its management companies. Such borrowings have varying maturities and bear interest at floating rates. Borrowings are generally secured by the investment purchased with the proceeds of the borrowing and/or the uncalled capital commitment of each respective fund. When an investment vehicle borrows, the proceeds are available only for use by that investment vehicle and are not available for the benefit of other investment vehicles or KKR. Collateral within each investment vehicle is also available only against borrowings by that investment vehicle and not against the borrowings of other investment vehicles or KKR.

Certain investments and other assets held directly by majority-owned investment vehicles have been funded with borrowings that are collateralized by the investments and assets they own. These borrowings are non-recourse to KKR beyond the investments and assets serving as collateral. Such borrowings have varying maturities and generally bear interest at fixed rates.

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Debt Obligations of Consolidated CFEs

As of September 30, 2018, debt obligations of consolidated CFEs consisted of the following:

| | Borrowing Outstanding | Weighted Average Interest Rate | | Weighted Average Remaining Maturity in Years |
|---|---|---|---|---|
| Senior Secured Notes of Consolidated CLOs | $11,173,622 | 3.1 | % | 11.7 |
| Subordinated Notes of Consolidated CLOs | 388,881 | (1) | | 12.0 |
| Debt Obligations of Consolidated CMBS Vehicles | 1,083,107 | 4.2 | % | 29.7 |
| | $12,645,610 | | | |

(1) The subordinated notes do not have contractual interest rates but instead receive a pro rata amount of the net distributions from the excess cash flows of the respective CLO vehicle. Accordingly, weighted average borrowing rates for the subordinated notes are based on cash distributions during the period, if any.

Debt obligations of consolidated CFEs are collateralized by assets held by each respective CFE vehicle and assets of one CFE vehicle may not be used to satisfy the liabilities of another. As of September 30, 2018, the fair value of the consolidated CFE assets was $13.9 billion. This collateral consisted of Cash and Cash Equivalents Held at Consolidated Entities, Investments, and Other Assets.

Debt Covenants

Borrowings of KKR contain various debt covenants. These covenants do not, in management's opinion, materially restrict KKR's operating business or investment strategies as of September 30, 2018. KKR is in compliance with its debt covenants in all material respects as of September 30, 2018.

## 11. INCOME TAXES

KKR & Co. Inc. is a corporation for U.S. federal income tax purposes and thus is subject to U.S. federal, state and local corporate income taxes at the entity level on KKR’s share of net taxable income. In addition, the KKR Group Partnerships and certain of their subsidiaries operate in the United States as partnerships for U.S. federal income tax purposes and as corporate entities in certain non-U.S. jurisdictions. These entities, in some cases, are subject to U.S. state or local income taxes or non-U.S. income taxes.

Prior to the Conversion, KKR & Co. L.P.’s investment income and carried interest generally were not subject to U.S. corporate income taxes. Subsequent to the Conversion, all income earned by KKR & Co. Inc. is subject to U.S. corporate income taxes, which we believe will result in an overall higher income tax expense (or benefit) when compared to periods prior to the Conversion.

The Conversion resulted in KKR obtaining a partial step-up in the tax basis of certain assets that will be recovered as those assets are sold or the basis is amortized. On the date of the Conversion, we recorded an estimated net tax benefit and estimated net deferred tax asset of $257.1 million relating to this partial step-up in tax basis. Our overall tax provision is based on, among other things, an estimate of the amount of such partial step-up in tax basis that is derived from an analysis of the basis of our unitholders in their ownership of KKR common units at December 31, 2017, as adjusted by partial information received by KKR for some trades made in KKR common units in 2018. While this information does not completely reflect the actual basis of our unitholders at June 30, 2018, our estimate is based on the most recent unitholder basis information available to us. The amount of partial step-up in tax basis cannot be finally determined until complete trading information with respect to common units of KKR & Co. L.P. for the six months ended June 30, 2018 becomes available. KKR does not currently expect such information to become available until late in the first quarter of 2019 (most likely after our Annual Report on Form 10-K is required to be filed), and the timing and the availability of this information is not within KKR’s control. Since the unitholder basis information currently available to us does not completely reflect the actual basis of our unitholders at June 30, 2018, the amount of partial step-up in tax basis as finally determined is expected to differ, possibly materially, from the current estimate, which in turn is expected to cause KKR’s income tax provision and effective tax rate under GAAP to differ, possibly to a material extent, from the current estimate described herein. If the amount of the partial step-up in tax basis as finally determined is higher than the current estimate, KKR would record a higher net tax benefit and an incrementally greater deferred tax asset, which would have the effect of decreasing the amount of taxes payable by KKR in the future. If the amount of partial step-up in tax basis as finally determined is lower than the current estimate, KKR would record a lower net tax benefit and an incrementally lower deferred tax asset, which would have the effect of increasing the amount of taxes payable by KKR in the future.

The effective tax rates were (10.6)% and 4.64% for the three months ended September 30, 2018 and 2017, respectively, and (1.50)% and 3.65% for the nine months ended September 30, 2018 and 2017, respectively. The effective tax rate differs from the statutory rate primarily due to the following: (i) a substantial portion of the reported net income (loss) before taxes is not attributable to KKR but rather is attributable to noncontrolling interests held in KKR’s consolidated entities by KKR Holdings or by third parties, (ii) the tax benefit recognized as a result of the partial step-up in tax basis of certain assets as a result of the Conversion as described above and (iii) certain compensation charges attributable to KKR are not deductible for tax purposes.

On December 22, 2017, the 2017 Tax Act was enacted in the United States, which instituted fundamental changes to the taxation of multinational businesses. During the year ended December 31, 2017, the Company estimated that $96.4 million of deferred tax expense, recorded in connection with the remeasurement of certain deferred tax assets and liabilities at the reduced U.S. federal tax rate, and $1.5 million of expense, net of the reversal of the deferred tax liability related to unremitted foreign earnings, recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount and a reasonable estimate in accordance with Staff Accounting Bulletin 118 ("SAB 118"). KKR filed its 2017 U.S. corporate income tax return in October 2018 and the actual tax impacts described above did not differ materially from the provisional amounts recorded in 2017. In accordance with SAB 118, accounting for the effects of the 2017 Tax Act is to be completed within one year of enactment and will be reflected in our financial statements as of and for the year ended December 31, 2018.

During the three and nine months ended September 30, 2018, there were no material changes to KKR's uncertain tax positions and KKR believes there will be no significant increase or decrease to the uncertain tax positions within 12 months of the reporting date.

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Notes to Condensed Consolidated Financial Statements (Continued)

12. EQUITY BASED COMPENSATION

The following table summarizes the expense associated with equity-based compensation for the three and nine months ended September 30, 2018 and 2017, respectively.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Equity Incentive Plan Units | $59,801 | $54,921 | $185,795 | $149,840 |
| KKR Holdings Principal Awards | 25,495 | 17,622 | 81,972 | 89,869 |
| Total [(1)] | $85,296 | $72,543 | $267,767 | $239,709 |

(1) Includes $2,952 and $10,044 of equity based charges for the three and nine months ended September 30, 2018 related to employees of equity method investees. Such amounts are included in Net Gains (Losses) from Investment Activities in the consolidated statements of operations.

Equity Incentive Plan

Under the Equity Incentive Plan, KKR is permitted to grant equity awards representing ownership interests in KKR & Co. Inc. Class A common stock. Vested awards under the Equity Incentive Plan dilute KKR & Co. Inc. common stockholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR Group Partnerships.

The total number of Class A common stock that may be issued under the Equity Incentive Plan is equivalent to 15% of the number of fully diluted shares of Class A common stock outstanding, subject to annual adjustment. Equity awards have been granted under the Equity Incentive Plan and are generally subject to service-based vesting, typically over a three to five year period from the date of grant. In certain cases, these awards are subject to transfer restrictions and/or minimum retained ownership requirements. The transfer restriction period, if applicable, lasts for (i) one year with respect to one-half of the interests vesting on any vesting date and (ii) two years with respect to the other one-half of the interests vesting on such vesting date. While providing services to KKR, if applicable, certain of these awards are also subject to minimum retained ownership rules requiring the award recipient to continuously hold shares of Class A common stock equivalents equal to at least 15% of their cumulatively vested awards that have the minimum retained ownership requirement.

Expense associated with the vesting of these awards is based on the closing price of the KKR & Co. Inc. Class A common stock on the date of grant, discounted for the lack of participation rights in the expected dividends on unvested shares. The following table presents information regarding the discount for the lack of participation rights in the expected dividends for shares granted subsequent to December 31, 2015.

| Date of Grant | Discount per share [(1)] |
|---|---|
| January 1, 2016 to December 31, 2016 | $ 0.64 |
| January 1, 2017 to December 31, 2017 | $ 0.68 |
| January 1, 2018 to June 30, 2018 | $ 0.68 |
| July 1, 2018 to Present | $ 0.50 |

(1) Represents the annual discount for the lack of participation rights on expected dividends. The total discount on any given tranche of unvested shares is calculated as the discount rate multiplied by the number of years in the

applicable vesting period.

Expense is recognized on a straight line basis over the life of the award and assumes a forfeiture rate of up to 7% annually based upon expected turnover by class of recipient.

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Market Condition Awards

On November 2, 2017, KKR's Co-Presidents and Co-Chief Operating Officers were each granted 2.5 million shares of KKR Class A common stock subject to a market price-based vesting condition ("Market Condition Awards"). These shares were granted under the Equity Incentive Plan. All of such shares will vest upon the market price of KKR Class A common stock reaching and maintaining a closing market price of $40 per share for 10 consecutive trading days on or prior to December 31, 2022, subject to the employee's continued service to the time of such vesting. If the $40 price target is not achieved by the close of business on December 31, 2022, the unvested Market Condition Awards will be automatically canceled and forfeited. These Market Condition Awards are subject to additional transfer restrictions and minimum retained ownership requirements after vesting. Due to the existence of the market condition, the vesting period for the Market Condition Awards is not explicit, and as such, compensation expense will be recognized over the period derived from the valuation technique used to estimate the grant-date fair value of the award (the "Derived Vesting Period").

The fair value of the Market Condition Awards at the date of grant was $4.02 per share based on a Monte-Carlo simulation valuation model due to the existence of the market condition described above. Below is a summary of the significant assumptions used to estimate the grant date fair value of the Market Condition Awards:

| | |
|---|---|
| Closing KKR share price as of valuation date | $19.90 |
| Risk Free Rate | 2.02 % |
| Volatility | 25.00% |
| Dividend Yield | 3.42 % |
| Expected Cost of Equity | 11.02% |

In addition, the grant date fair value assumes that holders of the Market Condition Awards will not participate in dividends until such awards have met their vesting requirements.

Compensation expense is recognized over the Derived Vesting Period, which was estimated to be 3 years from the date of grant, on a straight-line basis.
As of September 30, 2018, there was approximately $14.0 million of estimated unrecognized compensation expense related to unvested Market Condition Awards and such awards did not meet their market-price based vesting condition.

As of September 30, 2018, there was approximately $380.7 million of total estimated unrecognized expense related to unvested awards, including Market Condition Awards. That cost is expected to be recognized as follows:

| Year | Unrecognized Expense (in millions) |
|---|---|
| Remainder of 2018 | $ 48.9 |
| 2019 | 167.9 |
| 2020 | 112.8 |
| 2021 | 39.2 |
| 2022 | 11.0 |
| 2023 | 0.9 |
| Total | $ 380.7 |

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Notes to Condensed Consolidated Financial Statements (Continued)

A summary of the status of unvested awards granted under the Equity Incentive Plan, excluding Market Condition Awards as described above, from January 1, 2018 through September 30, 2018 is presented below:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance, January 1, 2018 | 46,422,733 | $ 14.98 |
| Granted | 1,849,305 | 20.61 |
| Vested | (10,242,975) | 13.65 |
| Forfeitures | (2,027,024) | 14.12 |
| Balance, September 30, 2018 | 36,002,039 | $ 15.70 |

The weighted average remaining vesting period over which unvested awards are expected to vest is 1.3 years.

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

| Vesting Date | Shares |
|---|---|
| October 1, 2018 | 5,753,904 |
| April 1, 2019 | 9,206,688 |
| October 1, 2019 | 4,471,831 |
| April 1, 2020 | 6,455,250 |
| October 1, 2020 | 3,453,424 |
| April 1, 2021 | 3,337,989 |
| October 1, 2021 | 1,976,345 |
| April 1, 2022 | 118,158 |
| October 1, 2022 | 1,137,278 |
| October 1, 2023 | 91,172 |
| | 36,002,039 |

KKR Holdings Awards

KKR Holdings units are exchangeable for KKR Group Partnership Units and allow for their exchange into Class A common stock of KKR & Co. Inc. on a one-for-one basis. As of September 30, 2018 and 2017, KKR Holdings owned approximately 36.6% or 303,106,993 units and 41.8% or 339,845,707 units, respectively, of outstanding KKR Group Partnership Units. Awards for KKR Holdings units that have been granted are generally subject to service based vesting, typically over a three to five year period from the date of grant. They are also generally subject to transfer restrictions which last for (i) one year with respect to one-half of the interests vesting on any vesting date and (ii) two years with respect to the other one-half of the interests vesting on such vesting date. While providing services to KKR, the recipients are also subject to minimum retained ownership rules requiring them to continuously hold 25% of their vested interests. Upon separation from KKR, award recipients are subject to the terms of a confidentiality and restrictive covenants agreement that would require the forfeiture of certain vested and unvested units should the terms of the agreement be violated. Holders of KKR Holdings units are not entitled to participate in distributions made on KKR Group Partnership Units underlying their KKR Holdings units until such units are vested. All of the KKR Holdings units (except for less than 0.2% of the outstanding KKR Holdings units) have been granted as of September 30, 2018.

The fair value of awards granted out of KKR Holdings is generally based on the closing price of KKR & Co. Inc. Class A common stock on the date of grant discounted for the lack of participation rights in the expected distributions on unvested units. KKR determined this to be the best evidence of fair value as KKR & Co. Inc. Class A common stock is traded in an active market and has an observable market price. Additionally, a KKR Holdings unit is an instrument with terms and conditions similar to those of KKR & Co. Inc. Class A common stock. Specifically, units in KKR Holdings and shares of KKR & Co. Inc. represent ownership interests in KKR Group Partnership Units and, subject to any vesting, minimum retained ownership requirements and transfer restrictions, each KKR Holdings unit is exchangeable into a KKR Group Partnership Unit and then into a share of KKR & Co. Inc. Class A common stock on a one-for-one basis.

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In February 2016, approximately 28.9 million KKR Holdings units were granted that were originally subject to market condition and service-based vesting that were subsequently modified in November 2016 to eliminate the market condition vesting and instead require only service-based vesting in equal annual installments over a five year period. At the date of modification, total future compensation expense amounted to $320.9 million, net of estimated forfeitures, to be recognized over the remaining vesting period of the modified awards.

The awards described above were granted from outstanding but previously unallocated units of KKR Holdings, and consequently these grants did not increase the number of KKR Holdings units outstanding or outstanding KKR & Co. Inc. Class A common stock on a fully-diluted basis. If and when vested, these awards will not dilute KKR's respective ownership interests in the KKR Group Partnerships.

KKR Holdings Awards give rise to equity-based compensation in the consolidated statements of operations based on the grant-date fair value of the award discounted for the lack of participation rights in the expected distributions on unvested units. This discount is consistent with that noted above for shares issued under the Equity Incentive Plan.

Expense is recognized on a straight line basis over the life of the award and assumes a forfeiture rate of up to 7% annually based on expected turnover by class of recipient.

As of September 30, 2018, there was approximately $281.7 million of estimated unrecognized expense related to unvested KKR Holdings awards. That cost is expected to be recognized as follows:

| Year | Unrecognized Expense (in millions) |
|---|---|
| Remainder of 2018 | $ 25.0 |
| 2019 | 96.1 |
| 2020 | 87.9 |
| 2021 | 47.4 |
| 2022 | 25.3 |
| Total | $ 281.7 |

A summary of the status of unvested awards granted under the KKR Holdings Plan from January 1, 2018 through September 30, 2018 is presented below:

| | Units | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance, January 1, 2018 | 30,848,583 | $ 14.42 |
| Granted | 450,000 | 20.90 |
| Vested | (4,524,590 ) | 13.37 |
| Forfeitures | (680,000 ) | 11.99 |
| Balance, September 30, 2018 | 26,093,993 | $ 14.78 |

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

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A summary of the remaining vesting tranches of awards granted under the KKR Holdings Plan is presented below:

| Vesting Date | Units |
|---|---|
| October 1, 2018 | 1,970,000 |
| April 1, 2019 | 229,514 |
| May 1, 2019 | 3,680,000 |
| October 1, 2019 | 2,455,000 |
| April 1, 2020 | 124,479 |
| May 1, 2020 | 3,680,000 |
| October 1, 2020 | 2,940,000 |
| May 1, 2021 | 3,680,000 |
| October 1, 2021 | 3,425,000 |
| October 1, 2022 | 3,910,000 |
| | 26,093,993 |

## 13. RELATED PARTY TRANSACTIONS

Due from Affiliates consists of:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Amounts due from portfolio companies | $ 102,183 | $ 129,594 |
| Amounts due from unconsolidated investment funds | 571,470 | 415,907 |
| Amounts due from related entities | 8,354 | 8,848 |
| Due from Affiliates | $ 682,007 | $ 554,349 |

Due to Affiliates consists of:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Amounts due to KKR Holdings in connection with the tax receivable agreement | $ 96,993 | $ 84,034 |
| Amounts due to unconsolidated investment funds | 155,554 | 239,776 |
| Due to Affiliates | $ 252,547 | $ 323,810 |

## 14. SEGMENT REPORTING

KKR operates through one operating and reportable segment. This single reportable segment reflects how the chief operating decision makers allocate resources and assess performance under KKR's "one-firm approach," which includes operating collaboratively across business lines, with predominantly a single expense pool.

KKR’s segment reporting is presented prior to giving effect to the allocation of income (loss) between KKR & Co. Inc. and KKR Holdings L.P. and as such represents the business in total. In addition, KKR’s segment reporting is presented without giving effect to the consolidation of the investment funds and CFEs that KKR manages as well as other consolidated entities that are not subsidiaries of KKR & Co. Inc. The segment measures used in KKR’s segment reporting, including segment revenues, segment expenses, after-tax distributable earnings and segment assets, are used by management in making operational and resource deployment decisions as well as assessing the overall performance of KKR’s business.

### After-tax Distributable Earnings

After-tax distributable earnings is a measure of KKR’s earnings on a segment basis excluding mark-to-market gains (losses). Starting with the second quarter of 2018, it is defined as the amount of realized earnings of KKR that would be available for distribution as dividends to Class A common stockholders for a given reporting period, after deducting equity-based compensation. KKR revised the definition of after-tax distributable earnings starting in the second quarter of 2018 because it currently reflects how the chief operating decision makers allocate resources and assess performance of KKR’s business. KKR believes that after-tax distributable earnings is useful to stockholders as it aligns KKR’s net realization performance with the manner in which KKR receives its revenues and determines the compensation of its employees. After-tax distributable earnings does not represent and is not used to calculate actual dividends under KKR’s dividend policy. Historically, equity-based compensation expense relating to the Equity Incentive Plan was not reflected in the calculation of after-tax distributable earnings. Under KKR’s current segment presentation, equity-based compensation expense is included in after-tax distributable earnings as a component of compensation expense in order to reflect the dilutive nature of these non-cash equity-based awards. For comparability, after-tax distributable earnings for the comparable prior periods have been calculated using this new definition.

### Modification of Segment Information

In connection with a change to KKR's chief operating decision makers, KKR's management has reevaluated the manner in which it makes operational and resource deployment decisions and assesses the overall performance of KKR's business. Effective with the three months ended June 30, 2018, the items detailed below have changed with respect to the preparation of the reports used by KKR's chief operating decision makers. As a result, KKR has modified the presentation of its segment financial information effective as of and for the three months ended June 30, 2018, with retrospective application to all prior periods presented.

The most significant changes between KKR's current segment presentation and its previous segment presentation reported prior to the three months ended June 30, 2018, are as follows:

- After-tax Distributable Earnings - After-tax distributable earnings is the performance measure for KKR's profitability and is used by management in making operational and resource deployment decisions since after-tax distributable earnings aligns KKR's net realized performance with the manner in which KKR receives its revenues and determines the compensation of its employees. Previously, economic net income was a key performance measure. The key distinction between after-tax distributable earnings and economic net income is that after-tax distributable earnings reflects the earnings of KKR excluding mark-to-market gains (losses).

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Single Reportable Segment - KKR operates through one operating and reportable segment as the chief operating decision makers assess performance of and allocate resources to all of its business lines on a collective basis. These performance assessments and resource allocation decisions are based both on individual and group performance and on broad considerations reflecting KKR's "one-firm approach," which includes operating collaboratively across business lines with predominantly a single expense pool. Historically, KKR operated as four reportable segments.

- Elimination of Expense Allocation Process - In previous periods, certain expenses were allocated among four historical reportable segments. For the reasons discussed above, a majority of our expenses, namely compensation expense and interest expense, are not specifically allocated among our business lines. Accordingly, KKR has eliminated the expense allocation process that was used in prior periods.

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Notes to Condensed Consolidated Financial Statements (Continued)

- Inclusion of Equity Based Compensation in After-tax Distributable Earnings - Historically, equity-based compensation expense relating to the Equity Incentive Plan was not reflected in our calculation of after-tax distributable earnings. Under KKR's current segment presentation, equity-based compensation expense is included in after-tax distributable earnings as a component of compensation expense in order to reflect the dilutive nature of these non-cash equity-based awards. For comparability, after-tax distributable earnings for the comparable prior periods have been calculated using this new definition.

- Interest Expense Excluded from Segment Revenues - Historically, KKR's interest expense on its debt capital was allocated entirely to the Principal Activities business line (one of the four historical reportable segments) as a reduction of investment income. As such, interest expense was included as a reduction to total segment revenues. Under KKR's current segment presentation, interest expense is not allocated among its business lines, as its debt capital supports KKR's entire business and not just the Principal Activities business line. As such, KKR's current segment presentation excludes interest expense from total segment revenues.

In connection with these modifications, segment information as of and for the three and nine months ended September 30, 2017 has been presented in this Quarterly Report on Form 10-Q to conform to KKR's current segment presentation for comparability purposes. Consequently, this information will be different from the historical segment financial results previously reported by KKR in its reports filed with the SEC.

Notes to Condensed Consolidated Financial Statements (Continued)

The following tables set forth information regarding KKR's segment results.

| | As of and for the Three Months Ended | | As of and for the Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Segment Revenues | | | | |
| Fees and Other, Net | | | | |
| Management Fees | $276,595 | $232,954 | $789,630 | $670,807 |
| Transaction Fees | 289,030 | 179,167 | 609,800 | 578,667 |
| Monitoring Fees | 20,176 | 14,342 | 63,100 | 58,072 |
| Fee Credits | (82,187) | (70,747) | (178,982) | (211,148) |
| Total Fees and Other, Net | 503,614 | 355,716 | 1,283,548 | 1,096,398 |
| | | | | |
| Realized Performance Income (Loss) | | | | |
| Carried Interest | 414,609 | 419,438 | 959,253 | 890,310 |
| Incentive Fees | 18,001 | 4,074 | 52,059 | 8,384 |
| Total Realized Performance Income (Loss) | 432,610 | 423,512 | 1,011,312 | 898,694 |
| | | | | |
| Realized Investment Income (Loss) | | | | |
| Net Realized Gains (Losses) (1) | 181,026 | 76,053 | 286,381 | 162,684 |
| Interest Income and Dividends | 61,717 | 70,557 | 205,522 | 195,275 |
| Total Realized Investment Income (Loss) | 242,743 | 146,610 | 491,903 | 357,959 |
| Total Segment Revenues | $1,178,967 | $925,838 | $2,786,763 | $2,353,051 |
| | | | | |
| Segment Expenses | | | | |
| Compensation and Benefits (2) | 469,107 | 363,247 | 1,138,149 | 933,107 |
| Occupancy and Related Charges | 14,571 | 14,672 | 42,819 | 42,448 |
| Other Operating Expenses (3) | 73,402 | 70,517 | 194,868 | 177,084 |
| Total Segment Expenses | $557,080 | $448,436 | $1,375,836 | $1,152,639 |
| | | | | |
| Segment Operating Earnings | 621,887 | 477,402 | 1,410,927 | 1,200,412 |
| | | | | |
| Interest Expense | 44,696 | 45,613 | 140,362 | 134,348 |
| Preferred Dividends | 8,341 | 8,341 | 25,023 | 25,023 |
| Income (Loss) Attributable to Noncontrolling Interests | 2,272 | 1,046 | 4,557 | 3,810 |
| Income Taxes Paid | 69,880 | 12,869 | 103,868 | 54,228 |
| After-tax Distributable Earnings | $496,698 | $409,533 | $1,137,117 | $983,003 |
| | | | | |
| Total Segment Assets | $18,772,875 | $15,347,999 | $18,772,875 | $15,347,999 |

(1) Given the extraordinary nature of the Conversion, the reported segment financial results for the nine months ended September 30, 2018 exclude approximately $729.4 million of losses on certain investments which were realized in the second quarter in advance of the Conversion.

(2) Includes equity-based compensation of $59,801 and $54,921 for the three months ended September 30, 2018 and 2017, respectively, and $185,795 and $149,840 for the nine months ended September 30, 2018 and 2017, respectively.

(3) For the nine months ended September 30, 2018, excludes approximately $11.5 million of non-recurring costs in connection with the Conversion.

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KKR's business lines are differentiated primarily by their business objectives, investment strategies and sources of revenue, and are summarized below.

Through KKR's Private Markets business line, KKR manages and sponsors private equity funds and co-investment vehicles, which invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. In addition to its traditional private equity funds, KKR sponsors investment funds that invest in growth equity and core equity investments. KKR also manages and sponsors investment funds and co-investment vehicles that invest capital in real assets, such as infrastructure, energy and real estate.

Through KKR's Public Markets business line, KKR operates its combined credit and hedge funds platforms. KKR's credit platform invests capital in leveraged credit strategies, including leveraged loans, high-yield bonds, opportunistic credit and revolving credit strategies, and alternative credit strategies including special situations and private credit opportunities, such as direct lending and private opportunistic credit investment strategies. KKR's hedge funds platform consists of hedge fund partnerships with third-party hedge fund managers in which KKR owns a minority stake.

KKR's Capital Markets business line supports the firm, portfolio companies, and third-party clients by developing and implementing both traditional and non-traditional capital solutions for investments or companies seeking financing. These services include arranging debt and equity financing, placing and underwriting securities offerings and providing other types of capital markets services.

Through KKR's Principal Activities business line, KKR manages the firm's assets and deploys capital to support and grow its business lines including making capital commitments as general partner to its funds, to seed new business strategies or investments for new funds or to bridge capital selectively for its funds' investments. The Principal Activities business line also provides the required capital to fund the various commitments of KKR's Capital Markets business line or to meet regulatory capital requirements.

Notes to Condensed Consolidated Financial Statements (Continued)

The following tables provide KKR's segment revenues on a disaggregated basis by business line for the three and nine months ended September 30, 2018 and 2017:

| | Three Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Private Markets | Public Markets | Capital Markets | Principal Activities | Total |
| Fees and Other, Net | | | | | |
| Management Fees | $176,071 | $100,524 | $— | $— | $276,595 |
| Transaction Fees | 93,866 | 8,666 | 186,498 | — | 289,030 |
| Monitoring Fees | 20,176 | — | — | — | 20,176 |
| Fee Credits | (73,571) | (8,616) | — | — | (82,187) |
| Total Fees and Other, Net | 216,542 | 100,574 | 186,498 | — | 503,614 |
| | | | | | |
| Realized Performance Income (Loss) | | | | | |
| Carried Interest | 404,709 | 9,900 | — | — | 414,609 |
| Incentive Fees | — | 18,001 | — | — | 18,001 |
| Total Realized Performance Income (Loss) | 404,709 | 27,901 | — | — | 432,610 |
| | | | | | |
| Realized Investment Income (Loss) | | | | | |
| Net Realized Gains (Losses) | — | — | — | 181,026 | 181,026 |
| Interest Income and Dividends | — | — | — | 61,717 | 61,717 |
| Total Realized Investment Income (Loss) | — | — | — | 242,743 | 242,743 |
| Total | $621,251 | $128,475 | $186,498 | $242,743 | $1,178,967 |

| | Three Months Ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Private Markets | Public Markets | Capital Markets | Principal Activities | Total |
| Fees and Other, Net | | | | | |
| Management Fees | $153,841 | $79,113 | $— | $— | $232,954 |
| Transaction Fees | 82,258 | 11,469 | 85,440 | — | 179,167 |
| Monitoring Fees | 14,342 | — | — | — | 14,342 |
| Fee Credits | (59,854) | (10,893) | — | — | (70,747) |
| Total Fees and Other, Net | 190,587 | 79,689 | 85,440 | — | 355,716 |
| | | | | | |
| Realized Performance Income (Loss) | | | | | |
| Carried Interest | 419,438 | — | — | — | 419,438 |
| Incentive Fees | — | 4,074 | — | — | 4,074 |
| Total Realized Performance Income (Loss) | 419,438 | 4,074 | — | — | 423,512 |
| | | | | | |
| Realized Investment Income (Loss) | | | | | |
| Net Realized Gains (Losses) | — | — | — | 76,053 | 76,053 |
| Interest Income and Dividends | — | — | — | 70,557 | 70,557 |
| Total Realized Investment Income (Loss) | — | — | — | 146,610 | 146,610 |
| Total | $610,025 | $83,763 | $85,440 | $146,610 | $925,838 |

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Notes to Condensed Consolidated Financial Statements (Continued)

| | Nine Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Private Markets | Public Markets | Capital Markets | Principal Activities | Total |
| Fees and Other, Net | | | | | |
| Management Fees | $490,556 | $299,074 | $— | $— | $789,630 |
| Transaction Fees | 189,122 | 21,897 | 398,781 | — | 609,800 |
| Monitoring Fees | 63,100 | — | — | — | 63,100 |
| Fee Credits | (158,163) | (20,819) | — | — | (178,982) |
| Total Fees and Other, Net | 584,615 | 300,152 | 398,781 | — | 1,283,548 |
| | | | | | |
| Realized Performance Income (Loss) | | | | | |
| Carried Interest | 949,353 | 9,900 | — | — | 959,253 |
| Incentive Fees | — | 52,059 | — | — | 52,059 |
| Total Realized Performance Income (Loss) | 949,353 | 61,959 | — | — | 1,011,312 |
| | | | | | |
| Realized Investment Income (Loss) | | | | | |
| Net Realized Gains (Losses) | — | — | — | 286,381 | 286,381 |
| Interest Income and Dividends | — | — | — | 205,522 | 205,522 |
| Total Realized Investment Income (Loss) | — | — | — | 491,903 | 491,903 |
| Total | $1,533,968 | $362,111 | $398,781 | $491,903 | $2,786,763 |

| | Nine Months Ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Private Markets | Public Markets | Capital Markets | Principal Activities | Total |
| Fees and Other, Net | | | | | |
| Management Fees | $419,606 | $251,201 | $— | $— | $670,807 |
| Transaction Fees | 237,392 | 41,040 | 300,235 | — | 578,667 |
| Monitoring Fees | 58,072 | — | — | — | 58,072 |
| Fee Credits | (177,254) | (33,894) | — | — | (211,148) |
| Total Fees and Other, Net | 537,816 | 258,347 | 300,235 | — | 1,096,398 |
| | | | | | |
| Realized Performance Income (Loss) | | | | | |
| Carried Interest | 890,310 | — | — | — | 890,310 |
| Incentive Fees | — | 8,384 | — | — | 8,384 |
| Total Realized Performance Income (Loss) | 890,310 | 8,384 | — | — | 898,694 |
| | | | | | |
| Realized Investment Income (Loss) | | | | | |
| Net Realized Gains (Losses) | — | — | — | 162,684 | 162,684 |
| Interest Income and Dividends | — | — | — | 195,275 | 195,275 |
| Total Realized Investment Income (Loss) | — | — | — | 357,959 | 357,959 |
| Total | $1,428,126 | $266,731 | $300,235 | $357,959 | $2,353,051 |

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Notes to Condensed Consolidated Financial Statements (Continued)

The following tables reconcile the most directly comparable financial measures calculated and presented in accordance with GAAP to KKR's segment information:

Revenues

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Total GAAP Revenues | $1,129,666 | $ 749,652 | $2,573,892 | $ 2,533,207 |
| Add: Management Fees - Consolidated Funds and Other | 104,356 | 53,454 | 270,383 | 155,418 |
| Deduct: Fee Credits - Consolidated Funds | 8,283 | 106 | 41,178 | 3,752 |
| Deduct: Capital Allocation-Based Income (GAAP) | 638,163 | 394,234 | 1,274,149 | 1,416,825 |
| Add: Segment Realized Carried Interest | 414,609 | 419,438 | 959,253 | 890,310 |
| Add: Segment Realized Investment Income (Loss) | 242,743 | 146,610 | 491,903 | 357,959 |
| Deduct: Revenue Earned by Other Consolidated Entities | 27,749 | 21,470 | 84,342 | 76,135 |
| Deduct: Expense Reimbursements | 38,212 | 27,506 | 108,999 | 87,131 |
| Total Segment Revenues | $1,178,967 | $ 925,838 | $2,786,763 | $ 2,353,051 |

Expenses

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Total GAAP Expenses | $740,090 | $ 530,247 | $1,851,741 | $ 1,699,989 |
| Deduct: Equity-based and Other Compensation - KKR Holdings L.P. | 25,327 | 23,807 | 87,269 | 127,864 |
| Deduct: Segment Unrealized Performance Income Compensation | 57,407 | (19,826) | 81,376 | 157,162 |
| Deduct: Amortization of Intangibles | 681 | 2,473 | 7,028 | 13,901 |
| Deduct: Reimbursable Expenses | 43,382 | 35,098 | 125,787 | 107,335 |
| Deduct: Operating Expenses relating to Other Consolidated Entities | 37,845 | 43,818 | 135,268 | 121,691 |
| Deduct: One-time Non-recurring Costs [1] | — | — | 11,501 | — |
| Add: Other | (18,368) | 3,559 | (27,676) | (19,397) |
| Total Segment Expenses | $557,080 | $ 448,436 | $1,375,836 | $ 1,152,639 |

(1) Represents non-recurring costs in connection with the Conversion.

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Notes to Condensed Consolidated Financial Statements (Continued)

Net Income (Loss) Attributable to KKR & Co. Inc. Class A Common Stockholders

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| GAAP Net Income (Loss) Attributable to KKR & Co. Inc. Class A Common Stockholders | $640,198 | $ 153,563 | $1,490,681 | $ 818,552 |
| Add: Net Income (Loss) Attributable to Noncontrolling Interests held by KKR Holdings L.P. | 293,659 | 115,434 | 864,520 | 637,146 |
| Add: Equity-based and Other Compensation - KKR Holdings L.P. | 25,537 | 23,807 | 87,479 | 127,864 |
| Add: Amortization of Intangibles and Other, net | 60,948 | 20,464 | 58,014 | 57,825 |
| Add: One-time Non-recurring Costs [(1)] | — | — | 11,501 | — |
| Add: Realized Losses on Certain Investments [(2)] | — | — | 729,425 | — |
| Deduct: Unrealized Carried Interest | 130,420 | (59,638) | 182,130 | 377,707 |
| Deduct: Net Unrealized Gains (Losses) | 251,346 | (50,902) | 1,849,077 | 461,111 |
| Add: Unrealized Performance Income Compensation | 57,407 | (19,826) | 81,376 | 157,162 |
| Add: Income Tax Provision | (129,405) | 18,420 | (50,804) | 77,500 |
| Deduct: Income Taxes Paid | 69,880 | 12,869 | 103,868 | 54,228 |
| After-tax Distributable Earnings | $496,698 | $ 409,533 | $1,137,117 | $ 983,003 |

(1) Represents non-recurring costs in connection with the Conversion.
(2) Represents losses on certain investments which were realized in the second quarter in advance of the Conversion.

The items that reconcile KKR's reportable segment income (loss) attributable to noncontrolling interests to the corresponding consolidated amounts calculated and presented in accordance with GAAP for net income (loss) attributable to redeemable noncontrolling interests and income (loss) attributable to noncontrolling interests are primarily attributable to the impact of KKR Holdings L.P., KKR's consolidated funds and certain other entities.

Assets

| | As of September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Total GAAP Assets | $50,343,948 | $44,305,639 |
| Deduct: Impact of Consolidation of Funds and Other Entities | 30,354,674 | 27,524,641 |
| Deduct: Carry Pool Reclassification from Liabilities | 1,300,165 | 1,131,071 |
| Add: Tax Reclassifications | 83,766 | — |
| Deduct: Impact of KKR Management Holdings Corp. | — | 301,928 |
| Total Segment Assets | $18,772,875 | $15,347,999 |

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Notes to Condensed Consolidated Financial Statements (Continued)

## 15. EQUITY

### Stockholders' Equity

KKR & Co. Inc.'s common stock consists of Class A common stock, Class B common stock and Class C common stock. On July 1, 2018, as a result of the Conversion, (i) each outstanding common unit representing limited partner interests in KKR & Co. L.P. converted into one issued and outstanding, fully paid and nonassessable share of Class A common stock, (ii) each outstanding managing partner unit of KKR & Co. L.P. converted into one issued and outstanding, fully paid and nonassessable share of Class B common stock, and (iii) each outstanding special voting unit of KKR & Co. L.P. converted into one issued and outstanding, fully paid and nonassessable share of Class C common stock. KKR & Co. Inc.'s certificate of incorporation and bylaws provide stockholders with substantially the same rights and obligations that unitholders had immediately prior to the Conversion. Under the laws of the state of its incorporation, KKR & Co. Inc. is deemed to be the same entity as KKR & Co. L.P. In connection with the Conversion, each 6.75% Series A Preferred Unit and 6.50% Series B Preferred Unit of KKR & Co. L.P. was converted into one share of 6.75% Series A Preferred Stock ("Series A Preferred Stock") and 6.50% Series B Preferred Stock ("Series B Preferred Stock") of KKR & Co. Inc., respectively.

Upon Conversion, KKR's authorized capital stock consists of 5,000,000,000 shares, all with a par value of $0.01 per share, of which: (i) 3,500,000,000 are designated as Class A common stock; (ii) one is designated as Class B common stock; (iii) 499,999,999 are designated as Class C common stock; and (iv) 1,000,000,000 are designated as preferred stock, of which (a) 13,800,000 shares are designated as Series A Preferred Stock and (b) 6,200,000 shares are designated as Series B Preferred Stock.

Below is a summary of the reclassification from partnership equity accounts to equity accounts reflective of a corporation following the Conversion. See statements of changes in equity.

| | |
|---|---|
| KKR & Co. L.P. Partners' Capital - Common Unitholders as of June 30, 2018 | $7,940,529 |
| Less: Reclassifications to Class A Common Stock ($0.01 par value, 524,341,874 shares) | 5,243 |
| Less: Reclassifications to Class B Common Stock ($0.01 par value, 1 share) | — |
| Less: Reclassifications to Class C Common Stock ($0.01 par value, 304,107,762 shares) | 3,041 |
| Less: Reclassifications to Additional Paid-In Capital | 7,932,245 |
| KKR & Co. L.P. Partners' Capital - Common Unitholders as of July 1, 2018 | $— |

### Retained Earnings

Upon Conversion, there was no Retained Earnings as a corporation.

### Accumulated Other Comprehensive Income (Loss)

There was no impact to Accumulated Other Comprehensive Income (Loss) upon Conversion.

### Class A, Class B and Class C Common Stock

Class A common stock and Class C common stock are non-voting and are not entitled to vote on any matter that is generally subject to a vote of the stockholders, except as expressly provided in the certificate of incorporation and bylaws or required by Delaware law or the rules of the NYSE. Class B common stock is voting and is entitled to one vote per share on any matter that is submitted to a vote of the stockholders generally. For matters on which our Class A common stock is entitled to vote, as provided in the certificate of incorporation or bylaws or required by Delaware law or the rules of the NYSE, so long as the ratio at which KKR Group Partnership Units are exchangeable for Class A common stock remains on a one-for-one basis, Class C common stock will vote together with Class A common stock as a single class and on an equivalent basis unless required otherwise by Delaware law, except Class C common stock will vote separately as a class on any amendment to the certificate of incorporation that changes certain terms, rights or preference of Class C common stock.

The holder of Class B common stock and holders of Class C common stock do not have any economic rights to receive dividends or receive distributions upon the dissolution, liquidation or winding up of KKR. Class A common stock, Class B common stock and Class C common stock are not entitled to preemptive rights, and, except in the case of impermissible

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transfers of the Class B common stock, which would result in KKR's redemption of such Class B common stock, are not subject to conversion, redemption or sinking fund provisions.

Series A and Series B Preferred Stock

The board of directors is authorized, subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the designation, powers (including voting powers), preferences and rights of the shares of each series and any of its qualifications, limitations or restrictions, in each case without further vote or action by the stockholders (except as may be required by the terms of any preferred stock then outstanding).

As of September 30, 2018, the certificate of incorporation has designated two series of preferred stock, Series A Preferred Stock and Series B Preferred Stock, each of which is outstanding.

On March 17, 2016, KKR issued 13,800,000 shares of Series A Preferred Stock, and on June 20, 2016, KKR issued 6,200,000 shares of Series B Preferred Stock. Series A Preferred Stock and Series B Preferred Stock trade on the NYSE under the symbols "KKR PR A" and "KKR PR B", respectively. The terms of the preferred stock are set forth in our certificate of incorporation.

If declared, dividends on Series A Preferred Stock and Series B Preferred Stock are payable quarterly on March 15, June 15, September 15 and December 15 of each year, at a rate per annum equal to 6.75%, in the case of Series A Preferred Stock, and 6.50%, in the case of Series B Preferred Stock. Dividends on Series A Preferred Stock and Series B Preferred Stock are discretionary and non-cumulative. Holders of Series A Preferred Stock and Series B Preferred Stock will only receive dividends on such shares when, as and if declared by the board of directors. KKR has no obligation to declare or pay any dividends for any dividend period, whether or not dividends on any series of preferred stock are declared or paid for any other dividend period.

Unless dividends have been declared and paid (or declared and set apart for payment) on Series A Preferred Stock and Series B Preferred Stock for a quarterly distribution period, KKR may not declare or pay dividends on, or repurchase, any of its shares that are junior to Series A Preferred Stock and Series B Preferred Stock, including Class A common stock, during such dividend period. A dividend period begins on a dividend payment date and extends to, but excludes, the next dividend payment date.

If KKR dissolves, then the holders of Series A Preferred Stock and Series B Preferred Stock are entitled to receive payment of a $25.00 liquidation preference per share, plus declared and unpaid dividends, if any, to the extent that KKR has sufficient gross income (excluding any gross income attributable to the sale or exchange of capital assets) such that holders of such preferred stock have capital account balances equal to such liquidation preference, plus declared and unpaid dividends, if any.

Series A Preferred Stock and Series B Preferred Stock do not have a maturity date. However, Series A Preferred Stock may be redeemed at the issuer's option, in whole or in part, at any time on or after June 15, 2021, at a price of $25.00 per share, plus declared and unpaid dividends, if any. Series B Preferred Stock may be redeemed at the issuer's option, in whole or in part, at any time on or after September 15, 2021, at a price of $25.00 per share, plus declared and unpaid dividends, if any. Holders of Series A Preferred Stock and Series B Preferred Stock have no right to require the redemption of such stock.

If a certain change of control event with a ratings downgrade occurs prior to June 15, 2021, in the case of Series A Preferred Stock, and September 15, 2021, in the case of Series B Preferred Stock, Series A Preferred Stock or Series B Preferred Stock, as applicable, may be redeemed at the issuer's option, in whole but not in part, upon at least 30 days' notice, within 60 days of the occurrence of such change of control event, at a price of $25.25 per share, plus declared and unpaid dividends, if any. If such a change of control event occurs (whether before, on or after June 15, 2021, in the case of Series A Preferred Stock, or September 15, 2021, in the case of Series B Preferred Stock) and we do not give such notice, the dividend rate per annum on the applicable series of preferred stock will increase by 5.00%, beginning on the 31st day following such change of control event.

Series A Preferred Stock and Series B Preferred Stock are not convertible into common stock of KKR & Co. Inc. and have no voting rights, except that holders of Series A Preferred Stock and Series B Preferred Stock have certain voting rights in limited circumstances relating to the election of directors following the failure to declare and pay dividends, certain amendments to the terms of the preferred stock, and the creation of preferred stock that are senior to Series A Preferred Stock and Series B Preferred Stock.

In connection with the issuance of Series A Preferred Stock and Series B Preferred Stock, the KKR Group Partnerships issued for the benefit of KKR & Co. Inc. corresponding series of preferred units with economic terms that mirror those of Series A Preferred Stock and Series B Preferred Stock, as applicable.

Share Repurchase Program

On May 3, 2018, KKR increased the available amount under its repurchase program to $500 million, which may be used for the repurchase of its shares of Class A common stock of KKR & Co. Inc. and retirement of equity awards issued pursuant to the Equity Incentive Plan (and any successor equity plan thereto). Under this repurchase program, shares of Class A common stock of KKR & Co. Inc. may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing, manner, price and amount of any repurchases will be determined by KKR in its discretion and will depend on a variety of factors, including legal requirements, price and economic and market conditions. KKR expects that the program, which has no expiration date, will be in effect until the maximum approved dollar amount has been used. The program does not require KKR to repurchase any specific number of shares of Class A common stock of KKR & Co. Inc., and the program may be suspended, extended, modified or discontinued at any time. During the three and nine months ended September 30, 2018, approximately 1.1 million and 3.3 million shares of Class A common stock, respectively, were repurchased pursuant to this program. There were no shares of Class A common stock repurchased pursuant to this program during the three and nine months ended September 30, 2017.

Noncontrolling Interests

Noncontrolling interests represent (i) noncontrolling interests in consolidated entities and (ii) noncontrolling interests held by KKR Holdings. There was no impact to Noncontrolling Interests upon Conversion.

Noncontrolling Interests in Consolidated Entities

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

(i) third party fund investors in KKR's funds;
(ii) third parties entitled to up to 1% of the carried interest received by certain general partners of KKR's funds that have made investments on or prior to December 31, 2015;
(iii) certain former principals and their designees representing a portion of the carried interest received by the general partners of KKR's private equity funds that was allocated to them with respect to private equity investments made during such former principals' tenure with KKR prior to October 1, 2009;
(iv) certain principals and former principals representing all of the capital invested by or on behalf of the general partners of KKR's private equity funds prior to October 1, 2009 and any returns thereon; and
(v) third parties in KKR's capital markets business line.

On January 16, 2018, KKR Financial Holdings LLC ("KFN") completed the redemption of all of its outstanding 7.375% Series A LLC Preferred Shares.

During the third quarter of 2018, all remaining holders of exchangeable equity securities representing ownership interests in a subsidiary of a KKR Group Partnership issued in connection with the acquisition of Avoca Capital ("Avoca") have exchanged such securities for shares of Class A common stock.

Noncontrolling Interests held by KKR Holdings

Noncontrolling interests held by KKR Holdings include economic interests held by principals in the KKR Group Partnerships. Such principals receive financial benefits from KKR's business in the form of distributions received from KKR Holdings and through their direct and indirect participation in the value of KKR Group Partnership Units held by KKR Holdings. These financial benefits are not paid by KKR & Co. Inc. and are borne by KKR Holdings.

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Notes to Condensed Consolidated Financial Statements (Continued)

The following tables present the calculation of total noncontrolling interests.

| Nine Months Ended September 30, 2018 | | |
|---|---|---|
| Noncontrolling Interests in Consolidated Entities | Noncontrolling Interests Held by KKR Holdings | Total Noncontrolling I |