

KKR & Co. L.P.
Form 10-Q
November 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2017

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. L.P.
(Exact name of Registrant as specified in its charter)
Delaware 26-0426107
(State or other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) 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 ✓ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ✓ 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 x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o
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(Do not check if a smaller
reporting company)

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.

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

As of November 1, 2017, there were 477,572,397 Common Units of the registrant outstanding.

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For the Quarter Ended September 30, 2017

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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, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or 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 distributions on common or preferred units of KKR, the timing, manner and volume of repurchases of common units pursuant to a repurchase program, and the expected synergies 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 benefits and anticipated synergies from transactions to not be realized. We believe these factors include those described under the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the Securities and Exchange Commission on February 24, 2017. These factors should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We do not undertake any obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise.

In this report, references to "KKR," "we," "us," "our" and "our partnership" refer to KKR & Co. L.P. and its consolidated subsidiaries. Prior to KKR & Co. L.P. becoming listed on the New York Stock Exchange ("NYSE") on July 15, 2010, KKR Group Holdings L.P. ("Group Holdings") consolidated the financial results of KKR Management Holdings L.P. and KKR Fund Holdings L.P. (together, the "KKR Group Partnerships") and their consolidated subsidiaries. On August 5, 2014, KKR International Holdings L.P. became a KKR Group Partnership. 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 issuance of Series A Preferred Units and Series B Preferred Units, the KKR Group Partnerships issued preferred units with economic terms designed to mirror those of the Series A Preferred Units and Series B Preferred Units, respectively.

References to "our Managing Partner" are to KKR Management LLC, which acts as our general partner and unless otherwise indicated, references to equity interests in KKR's business, or to percentage interests in KKR's business, reflect the aggregate equity of 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., which we refer to as "KKR Holdings," and references to our "senior principals" are to our senior employees who hold interests in our Managing Partner entitling them to vote for the election of its directors.

References to non-employee operating consultants include employees of KKR Capstone and 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.

Prior to October 1, 2009, KKR's business was conducted through multiple entities for which there was no single holding entity, but were under common control of senior KKR principals, and in which senior principals and KKR's other principals and individuals held ownership interests (collectively, the "Predecessor Owners"). On October 1, 2009, we completed the acquisition of all of the assets and liabilities of KKR & Co. (Guernsey) L.P. (f/k/a KKR Private Equity Investors, L.P. or "KPE") and, in connection with such acquisition, completed a series of transactions pursuant to which the business of KKR was reorganized into a holding company structure. The reorganization involved a contribution of certain equity interests in KKR's business that were held by KKR's Predecessor Owners to the KKR Group Partnerships in exchange for equity interests in the KKR Group Partnerships held through KKR Holdings. We refer to the acquisition of the assets and liabilities of KPE and to our subsequent reorganization into a holding company structure as the "KPE Transaction."

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

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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 unitholders 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 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 "Condensed Consolidated Financial Statements (Unaudited)—Note 14. Segment Reporting" and later in this report under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Segment Operating and Performance Measures" and "— Segment Balance Sheet."

This report uses the terms assets under management or AUM, fee paying assets under management or FPAUM, economic net income or ENI, fee related earnings or FRE, distributable earnings, 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 & Results of Operations—Segment 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 CLO and 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 common units outstanding, or to our common units outstanding on a fully exchanged and diluted basis, reflect (i) actual common units outstanding, (ii) common units into which KKR Group Partnership Units not held by us are exchangeable pursuant to the terms of the exchange agreement described in this report, (iii) common units issuable in respect of exchangeable equity securities issued in connection with the acquisition of Avoca Capital ("Avoca"), and (iv) common units issuable pursuant to any equity awards actually granted from the KKR & Co. L.P. 2010 Equity Incentive Plan, which we refer to as our "Equity Incentive Plan." Our fully exchanged and diluted common units outstanding do not include (i) common units available for issuance pursuant to our Equity Incentive Plan for which equity awards have not yet been granted and (ii) common units which we have the option to issue in connection with our acquisition of additional interests in Marshall Wace.

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(Amounts in Thousands, Except Unit Data)

	September 30, 2017	December 31, 2016
Assets		
Cash and Cash Equivalents	\$ 2,436,566	\$ 2,508,902
Cash and Cash Equivalents Held at Consolidated Entities	1,329,735	1,624,758
Restricted Cash and Cash Equivalents	44,175	212,155
Investments	37,251,837	31,409,765
Due from Affiliates	484,004	250,452
Other Assets	2,759,322	2,996,865
Total Assets	\$ 44,305,639	\$ 39,002,897
Liabilities and Equity		
Debt Obligations	\$ 20,290,714	\$ 18,544,075
Due to Affiliates	379,809	359,479
Accounts Payable, Accrued Expenses and Other Liabilities	3,769,682	2,981,260
Total Liabilities	24,440,205	21,884,814
Commitments and Contingencies		
Redeemable Noncontrolling Interests	570,134	632,348
Equity		
Series A Preferred Units		
(13,800,000 units issued and outstanding as of September 30, 2017 and December 31, 2016)	332,988	332,988
Series B Preferred Units		
(6,200,000 units issued and outstanding as of September 30, 2017 and December 31, 2016)	149,566	149,566
KKR & Co. L.P. Capital - Common Unitholders		
(473,134,387 and 452,380,335 common units issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	6,380,654	5,457,279
Total KKR & Co. L.P. Partners' Capital	6,863,208	5,939,833
Noncontrolling Interests	12,432,092	10,545,902
Total Equity	19,295,300	16,485,735
Total Liabilities and Equity	\$ 44,305,639	\$ 39,002,897

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued) (UNAUDITED)
(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, 2017 and December 31, 2016. KKR's consolidated VIEs consist primarily of certain collateralized financing entities ("CFEs") holding collateralized loan obligations ("CLOs") and 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 fees 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, 2017

	Consolidated CFEs	Consolidated KKR Funds and Other Entities	Total
Assets			
Cash and Cash Equivalents Held at Consolidated Entities	\$930,268	\$399,467	\$1,329,735
Restricted Cash and Cash Equivalents	—	8,928	8,928
Investments	15,500,898	8,934,607	24,435,505
Due from Affiliates	—	5,118	5,118
Other Assets	203,987	202,798	406,785
Total Assets	\$16,635,153	\$9,550,918	\$26,186,071
Liabilities			
Debt Obligations	\$15,083,900	\$817,069	\$15,900,969
Accounts Payable, Accrued Expenses and Other Liabilities	839,097	239,215	1,078,312
Total Liabilities	\$15,922,997	\$1,056,284	\$16,979,281

December 31, 2016

	Consolidated CFEs	Consolidated KKR Funds and Other Entities	Total
Assets			
Cash and Cash Equivalents Held at Consolidated Entities	\$1,158,641	\$466,117	\$1,624,758
Restricted Cash and Cash Equivalents	86,777	95,105	181,882
Investments	13,950,897	8,979,341	22,930,238
Due from Affiliates	—	5,555	5,555
Other Assets	153,283	430,326	583,609
Total Assets	\$15,349,598	\$9,976,444	\$25,326,042
Liabilities			
Debt Obligations	\$13,858,288	\$1,612,799	\$15,471,087

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Accounts Payable, Accrued Expenses and Other Liabilities	722,714	316,121	1,038,835
Total Liabilities	\$14,581,002	\$1,928,920	\$16,509,922

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in Thousands, Except Unit Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Fees and Other	\$692,877	\$ 687,056	\$2,340,617	\$1,426,618
Expenses				
Compensation and Benefits	368,513	358,161	1,234,317	780,062
Occupancy and Related Charges	15,267	16,405	44,150	49,159
General, Administrative and Other	146,467	136,551	421,522	413,437
Total Expenses	530,247	511,117	1,699,989	1,242,658
Investment Income (Loss)				
Net Gains (Losses) from Investment Activities	108,779	735,144	1,085,655	9,089
Dividend Income	20,774	73,105	100,144	167,987
Interest Income	317,134	256,505	893,832	753,194
Interest Expense	(211,959)	(255,105)	(597,403)	(607,812)
Total Investment Income (Loss)	234,728	809,649	1,482,228	322,458
Income (Loss) Before Taxes	397,358	985,588	2,122,856	506,418
Income Tax / (Benefit)	18,420	10,826	77,500	18,761
Net Income (Loss)	378,938	974,762	2,045,356	487,657
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	20,876	3,121	64,196	4,616
Net Income (Loss) Attributable to Noncontrolling Interests	196,158	611,288	1,137,585	353,044
Net Income (Loss) Attributable to KKR & Co. L.P.	161,904	360,353	843,575	129,997
Net Income Attributable to Series A Preferred Unitholders	5,822	5,822	17,466	11,515
Net Income Attributable to Series B Preferred Unitholders	2,519	2,379	7,557	2,379
Net Income (Loss) Attributable to KKR & Co. L.P. Common Unitholders	\$153,563	\$ 352,152	\$818,552	\$116,103
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit				
Basic	\$0.33	\$0.79	\$1.76	\$0.26
Diluted	\$0.30	\$0.73	\$1.63	\$0.24
Weighted Average Common Units Outstanding				
Basic	471,758,886	445,989,300	463,941,084	448,149,747
Diluted	506,873,177	479,975,675	501,615,635	483,134,985

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Amounts in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income (Loss)	\$378,938	\$974,762	\$2,045,356	\$487,657
Other Comprehensive Income (Loss), Net of Tax:				
Foreign Currency Translation Adjustments	10,001	2,452	47,097	679
Comprehensive Income (Loss)	388,939	977,214	2,092,453	488,336
Less: Comprehensive Income (Loss) Attributable to Redeemable Noncontrolling Interests	20,876	3,121	64,196	4,616
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interests	199,904	612,656	1,161,651	351,547
Comprehensive Income (Loss) Attributable to KKR & Co. L.P.	\$168,159	\$361,437	\$866,606	\$132,173

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(Amounts in Thousands, Except Unit Data)

	KKR & Co. L.P.								
	Common Units	Capital - Common Unitholders	Accumulated Other Comprehensive Income (Loss)	Edtial Capital - Common Units	Capital - Series A Preferred Units	Capital - Series B Preferred Units	Noncontrolling Interests	Total Equity	Redeem Noncont Interests
Balance at January 1, 2016	457,834,875	\$5,575,981	\$(28,799)	\$5,547,182	\$—	\$—	\$43,731,774	\$49,278,956	\$188,62
Net Income (Loss)		116,103		116,103	11,515	2,379	353,044	483,041	4,616
Other Comprehensive Income (Loss)- Foreign Currency Translation (Net of Tax)			2,176	2,176			(1,497	) 679	
Deconsolidation of Funds				—			(34,240,240	) (34,240,240)
Exchange of KKR Holdings L.P. Units and Other Securities to KKR & Co. L.P. Common Units	4,655,059	54,674	(480	) 54,194			(54,194) —	
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units and Other Net Delivery of Common Units - Equity		(158	) (89	) (247	)			(247)
Incentive Plan Equity Based Compensation Unit Repurchases	5,098,522	(28,234	)	(28,234	)			(28,234)
Equity Issued in connection with Preferred Unit		148,257		148,257			37,775	186,032	
	(21,387,836) (291,903)	(291,903)			(291,903)
				—	332,988	149,566		482,554	

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Offering Capital Contributions			—				1,948,552	1,948,552	223,739
Capital Distributions	(213,483)		(213,483)	(11,515)	(2,379)		(1,164,758)	(1,392,135)	(21,774)
Balance at September 30, 2016	446,200,620	\$5,361,237	\$(27,192)	\$5,334,045	\$332,988	\$149,566	\$10,610,456	\$16,427,055	\$395,210

KKR & Co. L.P.

	Common Units	Capital - Common Unitholders	Accumulated Other Comprehensive Income (Loss)	Edtial Capital - Common Units	Capital - Series A Preferred Units	Capital - Series B Preferred Units	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling 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)		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	6,229,754	(37,304)		(37,304)				(37,304)	
Incentive Plan Equity Based Compensation		149,840		149,840			127,864	277,704	

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Unit									
Repurchases		—					—		
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,	473,134,387	\$6,409,824	\$(29,170)	\$6,380,654	\$332,988	\$149,566	\$12,432,092	\$19,295,300	\$570,134
2017									

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in Thousands)

	Nine Months Ended September 30,	
	2017	2016
Operating Activities		
Net Income (Loss)	\$2,045,356	\$487,657
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Equity Based Compensation	271,226	186,032
Net Realized (Gains) Losses on Investments	2,662	(354,105)
Change in Unrealized (Gains) Losses on Investments	(1,088,317)	345,016
Carried Interest Allocated as a result of Changes in Fund Fair Value	(1,224,235)	(602,695)
Other Non-Cash Amounts	11,121	29,465
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Change in Cash and Cash Equivalents Held at Consolidated Entities	367,713	(56,992)
Change in Due from / to Affiliates	(230,948)	(157,793)
Change in Other Assets	(66,260)	(50,166)
Change in Accounts Payable, Accrued Expenses and Other Liabilities	1,176,047	442,025
Investments Purchased	(29,464,933)	(14,323,221)
Proceeds from Investments	25,981,898	13,498,957
Net Cash Provided (Used) by Operating Activities	(2,218,670)	(555,820)
Investing Activities		
Change in Restricted Cash and Cash Equivalents	167,980	32,953
Purchase of Fixed Assets	(70,849)	(8,177)
Development of Oil and Natural Gas Properties	(1,041)	(1,588)
Net Cash Provided (Used) by Investing Activities	96,090	23,188
Financing Activities		
Distributions to Partners	(230,785)	(213,483)
Distributions to Redeemable Noncontrolling Interests	(525)	(21,774)
Contributions from Redeemable Noncontrolling Interests	189,172	223,739
Distributions to Noncontrolling Interests	(1,610,880)	(1,164,758)
Contributions from Noncontrolling Interests	2,482,649	1,726,529
Issuance of Preferred Units (net of issuance costs)	—	482,554
Preferred Unit Distributions	(25,023)	(13,894)
Net Delivery of Common Units - Equity Incentive Plan	(37,304)	(28,234)
Unit Repurchases	—	(291,903)
Proceeds from Debt Obligations	8,848,735	5,339,824
Repayment of Debt Obligations	(7,557,245)	(4,353,147)
Financing Costs Paid	(8,550)	(3,761)
Net Cash Provided (Used) by Financing Activities	2,050,244	1,681,692
Net Increase/(Decrease) in Cash and Cash Equivalents	(72,336)	1,149,060
Cash and Cash Equivalents, Beginning of Period	2,508,902	1,047,740
Cash and Cash Equivalents, End of Period	\$2,436,566	\$2,196,800

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued) (UNAUDITED)

(Amounts in Thousands)

	Nine Months Ended September 30,	
	2017	2016
Supplemental Disclosures of Cash Flow Information		
Payments for Interest	\$577,428	\$600,701
Payments for Income Taxes	\$34,633	\$21,335
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Non-Cash Contributions of Equity Based Compensation	\$277,704	\$186,032
Non-Cash Contributions from Noncontrolling Interests	\$4,199	\$222,023
Debt Obligations - Net Gains (Losses), Translation and Other	\$(460,740)	\$(243,384)
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units	\$(7,595)	\$(247)
Changes in Consolidation and Other		
Cash and Cash Equivalents Held at Consolidated Entities	\$(2,244)	\$(270,458)
Restricted Cash and Cash Equivalents	\$—	\$(54,064)
Investments	\$(174,906)	\$(35,686,489)
Due From Affiliates	\$(3,536)	\$147,427
Other Assets	\$(298,097)	\$(532,226)
Debt Obligations	\$—	\$(2,355,305)
Due to Affiliates	\$—	\$329,083
Accounts Payable, Accrued Expenses and Other Liabilities	\$(114,573)	\$(129,348)
Noncontrolling Interests	\$(71,657)	\$(34,240,240)
Redeemable Noncontrolling Interests	\$(315,057)	\$—

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(All Amounts in Thousands, Except Unit, Per Unit Data, and Except Where Noted)

1. ORGANIZATION

KKR & Co. L.P. (NYSE: KKR), together with its consolidated subsidiaries (“KKR”), is a leading global investment firm that manages multiple alternative asset classes including private equity, energy, infrastructure, real estate, credit and, through its strategic manager partnerships, hedge funds. KKR aims to generate attractive investment returns 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 its partners' capital and provides financing solutions and investment opportunities through its capital markets business.

KKR & Co. L.P. was formed as a Delaware limited partnership on June 25, 2007 and its general partner is KKR Management LLC (the “Managing Partner”). KKR & Co. L.P. is the parent company of KKR Group Limited, which is the non-economic general partner of KKR Group Holdings L.P. (“Group Holdings”), and KKR & Co. L.P. is the sole limited partner of Group Holdings. Group Holdings holds a controlling economic interest in each of (i) KKR Management Holdings L.P. (“Management Holdings”) through KKR Management Holdings Corp., a Delaware corporation which is a domestic corporation for U.S. federal income tax purposes, (ii) KKR Fund Holdings L.P. (“Fund Holdings”) directly and through KKR Fund Holdings GP Limited, a Cayman Island limited company which is a disregarded entity for U.S. federal income tax purposes, and (iii) KKR International Holdings L.P. (“International Holdings”, and together with Management Holdings and Fund Holdings, the “KKR Group Partnerships”) directly and through KKR Fund Holdings GP Limited. Group Holdings also owns certain economic interests in Management Holdings through a wholly owned Delaware corporate subsidiary of KKR Management Holdings Corp. and certain economic interests in Fund Holdings through a Delaware partnership of which Group Holdings is the general partner with a 99% economic interest and KKR Management Holdings Corp. is a limited partner with a 1% economic interest. KKR & Co. L.P., through its indirect controlling economic interests in the KKR Group Partnerships, is the holding partnership for the KKR business.

KKR & Co. L.P. 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. As of September 30, 2017, KKR & Co. L.P. held approximately 58.2% of the KKR Group Partnership Units and principals through KKR Holdings held approximately 41.8% 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 KKR & Co. L.P. common units or when KKR & Co. L.P. otherwise issues or repurchases KKR & Co. L.P. common units. 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 units issued by KKR & Co. L.P.

PAAMCO Prisma

On June 1, 2017, KKR completed its previously announced transaction to combine Pacific Alternative Asset Management Company, LLC (“PAAMCO”) and Prisma Capital Partners LP (“Prisma”), formerly known as KKR Prisma or KKR’s hedge fund solutions platform, to create PAAMCO Prisma Holdings, LLC (“PAAMCO Prisma”). PAAMCO Prisma is a leading liquid alternatives investment firm, which operates independently from KKR.

In connection with this transaction, KKR contributed \$114.1 million of net assets, including intangible assets and an allocation of goodwill, in exchange for a 39.9% equity interest in PAAMCO Prisma and the right to receive certain

payments from PAAMCO Prisma, the collective fair value of which was \$131.6 million. KKR reports its investment in PAAMCO Prisma using the equity method of accounting. See Note 16 "Goodwill and Intangible Assets."

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of KKR & Co. L.P. 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, 2016 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, 2016, which include all disclosures required by GAAP. These financial statements should be read in conjunction with the audited consolidated financial statements included in KKR & Co. L.P.’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”).

KKR & Co. L.P. consolidates the financial results of the KKR Group Partnerships and their consolidated subsidiaries, 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 fees, expenses and investment income (loss) during the reporting periods. Such estimates include but are not limited to 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

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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.

Redeemable Noncontrolling Interests

Redeemable Noncontrolling Interests represent noncontrolling interests of certain investment funds and vehicles that are subject to periodic redemption by fund investors following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee during the period when capital may not be otherwise withdrawn. Fund investors interests subject to redemption as described above are presented as Redeemable Noncontrolling Interests in the accompanying condensed consolidated statements of financial condition and presented as Net Income (Loss) Attributable to Redeemable Noncontrolling Interests in the accompanying condensed consolidated statements of operations.

When redeemable amounts become legally payable to fund investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the accompanying condensed consolidated statements of financial condition. For all consolidated investment vehicles and funds in which redemption rights have not been granted, noncontrolling

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interests are presented within Equity in the accompanying condensed consolidated statements of financial condition as noncontrolling interests.

Noncontrolling Interests

Noncontrolling interests represent (i) noncontrolling interests in consolidated entities and (ii) noncontrolling interests held by KKR Holdings.

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 and 1% of KKR's other profits (losses) through and including 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;
- (v) third parties in KKR's capital markets business;
- (vi) 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"); and
- (vii) holders of the 7.375% Series A LLC Preferred Shares of KKR Financial Holdings LLC ("KFN") whose rights are limited to the assets of KFN.

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. L.P. and are borne by KKR Holdings.

The following table presents the calculation of noncontrolling interests held by KKR Holdings:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Balance at the beginning of the period	\$4,683,673	\$4,018,305	\$4,293,337	\$4,347,153
Net income (loss) attributable to noncontrolling interests held by KKR Holdings ⁽¹⁾	115,434	284,834	637,146	86,659
Other comprehensive income (loss), net of tax ⁽²⁾	4,676	231	18,429	(37)
Impact of the exchange of KKR Holdings units to KKR & Co. L.P. common units ⁽³⁾	(43,553)	(22,930)	(184,254)	(53,908)
Equity based compensation	23,807	7,822	127,864	27,469
Capital contributions	39	69	2,989	207
Capital distributions	(58,347)	(57,420)	(177,701)	(176,632)
Transfer of interests under common control	—	—	7,919	—
(See Note 15 "Equity")				

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Balance at the end of the period	\$4,725,729	\$4,230,911	\$4,725,729	\$4,230,911
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(1) Refer to the table below for calculation of Net income (loss) attributable to noncontrolling interests held by KKR Holdings.

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(2) Calculated on a pro rata basis based on the weighted average KKR Group Partnership Units held by KKR Holdings during the reporting period.

(3) Calculated based on the proportion of KKR Holdings units exchanged for KKR & Co. L.P. common units pursuant to the exchange agreement during the reporting period. The exchange agreement provides for the exchange of KKR Group Partnership Units held by KKR Holdings for KKR & Co. L.P. common units.

Net income (loss) attributable to KKR & Co. L.P. after allocation to noncontrolling interests held by KKR Holdings, with the exception of certain tax assets and liabilities that are directly allocable to KKR Management Holdings Corp., is attributed based on the percentage of the weighted average KKR Group Partnership Units held by KKR and KKR Holdings, each of which holds equity of the KKR Group Partnerships. However, primarily because of the (i) contribution of certain expenses borne entirely by KKR Holdings, (ii) the periodic exchange of KKR Holdings units for KKR & Co. L.P. common units pursuant to the exchange agreement and (iii) the contribution of certain expenses borne entirely by KKR associated with the KKR & Co. L.P. 2010 Equity Incentive Plan (“Equity Incentive Plan”), equity allocations shown in the condensed consolidated statement of changes in equity differ from their respective pro-rata ownership interests in KKR’s net assets.

The following table presents net income (loss) attributable to noncontrolling interests held by KKR Holdings:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	\$378,938	\$974,762	\$2,045,356	\$487,657
Less: Net income (loss) attributable to Redeemable Noncontrolling Interests	20,876	3,121	64,196	4,616
Less: Net income (loss) attributable to Noncontrolling Interests in consolidated entities	80,724	326,454	500,439	266,385
Less: Net income (loss) attributable to Series A and Series B Preferred Unitholders	8,341	8,201	25,023	13,894
Plus: Income tax / (benefit) attributable to KKR Management Holdings Corp.	6,063	3,187	30,571	(8,376)
Net income (loss) attributable to KKR & Co. L.P. Common Unitholders and KKR Holdings	\$275,060	\$640,173	\$1,486,269	\$194,386
Net income (loss) attributable to noncontrolling interests held by KKR Holdings	\$115,434	\$284,834	\$637,146	\$86,659

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 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.

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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.

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.

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Equity Method - Consists primarily of (i) certain investments in private equity funds, real assets funds and credit funds, which are not consolidated and (ii) certain investments in operating companies in which KKR is deemed to exert significant influence under GAAP.

Carried Interest - Consists of carried interest from unconsolidated investment funds that are allocated to KKR as the general partner of the investment fund based on cumulative fund performance to date, and where applicable, subject to a preferred return.

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 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

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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 and other financial instruments not held through a consolidated investment fund with gains and losses recorded in net income. 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 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. KKR's share of earnings (losses) from these investments is reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. For equity method investments, 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, 2017, equity method investees for which KKR reports financial results on a quarter lag include Marshall Wace LLP ("Marshall Wace") and USI, Inc. 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 investments in private equity funds, real assets funds and credit funds, which are not consolidated, approximate fair value, because the underlying investments of the unconsolidated investment funds are reported at fair value.

The carrying value of equity method investments in certain operating companies, which KKR is determined to exert significant influence under GAAP and 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.

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 CLO entities, 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 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).

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.

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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, credit investments 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.

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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

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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 Assets 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.

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.

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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.

Level III Valuation Process

The valuation process involved for Level III measurements is completed on a quarterly basis and is designed to subject the valuation of Level III investments to an appropriate level of consistency, oversight, and review.

For Private Markets investments classified as Level III, investment professionals prepare preliminary valuations based on their evaluation of financial and operating data, company specific developments, market valuations of comparable companies and other factors. These preliminary valuations are reviewed by an independent valuation firm engaged by KKR to perform certain procedures in order to assess the reasonableness of KKR's valuations annually for all Level III investments in Private Markets and quarterly for investments other than certain investments, which have values less than pre-set value thresholds and which in the aggregate comprise less than 5% of the total value of KKR's Level III Private Markets investments. The valuations of certain real asset investments are determined solely by an independent valuation firm without the preparation of preliminary valuations by our investment professionals, and instead such independent valuation firm relies principally on valuation information available to it as a broker or valuation firm. For credit investments and debt obligations of consolidated CMBS vehicles, an independent valuation firm is generally engaged by KKR with respect to investments classified as Level III. The valuation firm either provides a value, or provides a valuation range from which KKR's investment professionals select a point in the range to determine the preliminary valuation or performs certain procedures in order to assess the reasonableness and provide positive assurance of KKR's valuations. After reflecting any input from the independent valuation firm, the valuation proposals are submitted to their respective valuation sub-committees.

KKR has a global valuation committee comprised of senior employees including investment professionals and professionals from business operations functions, and includes one of KKR's Co-Presidents and Co-Chief Operating Officers and its Chief Financial Officer, General Counsel and Chief Compliance Officer. The global valuation committee is assisted by valuation sub-committees and investment professionals for each business strategy. All preliminary Level III valuations are reviewed and approved by the valuation sub-committees for private equity, real estate, energy and infrastructure, and credit, as applicable. For periods prior to the completion of the PAAMCO Prisma transaction, when Level III valuations were required to be performed on hedge fund investments, a valuation sub-committee for hedge funds reviewed these valuations. The valuation sub-committees are responsible for the review and approval of valuations in their respective business lines on a quarterly basis. The members of the valuation sub-committees are comprised of investment professionals, including the heads of each respective strategy, and professionals from business operations functions such as legal, compliance and finance, who are not primarily responsible for the management of the investments.

The global valuation committee provides general oversight of the valuation sub-committees. The global valuation committee is responsible for coordinating and implementing the firm's valuation process to ensure consistency in the application of valuation principles across portfolio investments and between periods. All valuations are subject to approval by the global valuation committee. When valuations are approved by the global valuation committee after reflecting any input from it, the valuations of Level III investments, as well as the valuations of Level I and Level II investments, are presented to the audit committee of the board of directors of the general partner of KKR & Co. L.P.

and are then reported to the board of directors.

Fees and Other

Fees and other consist primarily of (i) transaction fees earned in connection with successful investment transactions and from capital markets activities, (ii) management and incentive fees from providing investment management services to unconsolidated funds, CLOs, other vehicles, and separately managed accounts, (iii) monitoring fees from providing services to portfolio companies, (iv) carried interest allocations to general partners of unconsolidated funds, (v) revenue earned by oil and gas-producing entities that are consolidated and (vi) consulting fees earned by consolidated entities that employ non-employee operating consultants.

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For the three and nine months ended September 30, 2017 and 2016, respectively, fees and other consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Management Fees	\$178,942	\$152,491	\$517,393	\$468,390
Transaction Fees	181,280	113,056	581,410	277,776
Monitoring Fees	41,848	23,367	145,203	99,388
Fee Credits	(70,641)	(46,975)	(207,396)	(106,506)
Carried Interest	337,459	414,864	1,224,235	602,695
Incentive Fees	2,519	3,800	3,637	6,045
Oil and Gas Revenue	12,441	16,191	47,096	47,977
Consulting Fees	9,029	10,262	29,039	30,853
Total Fees and Other	\$692,877	\$687,056	\$2,340,617	\$1,426,618

All revenues presented in the table above, except for oil and gas revenue and certain transaction fees earned by KKR's Capital Markets business, are earned from KKR investment funds and portfolio companies. Consulting fees are earned by certain consolidated entities that employ non-employee operating consultants from providing advisory and other services to portfolio companies and other companies. These fees are separately negotiated with each company for which services are provided and are not shared with KKR.

Management Fees

Management fees are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement. Management fees earned from private equity funds and certain investment funds are based upon a percentage of capital committed or capital invested during the investment period, and thereafter generally based on remaining invested capital or net asset value. For certain other investment funds, CLOs, and separately managed accounts, management fees are based upon the net asset value, gross assets or as otherwise defined in the respective agreements.

Management fees received from KKR's consolidated funds and 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 KKR's consolidated funds and vehicles is increased by the amount of fees that are eliminated.

Accordingly, the elimination of these fees does not have an effect on the net income (loss) attributable to KKR or KKR partners' capital.

Transaction Fees

Transaction fees are earned by KKR primarily in connection with successful investment transactions and capital markets activities. Transaction fees are recognized in the period when the transaction closes. Fees are typically paid on or shortly after the closing of a transaction.

In connection with pursuing successful portfolio company investments, KKR receives reimbursement for certain transaction related expenses. Transaction related expenses, which are reimbursed by third parties, are typically deferred until the transaction is consummated and are recorded in Other Assets on the consolidated statements of financial condition on the date incurred. The costs of successfully completed transactions are borne by the KKR investment funds and included as a component of the investment's cost basis. Subsequent to closing, investments are recorded at fair value each reporting period as described in the section above titled "Investments". Upon reimbursement from a third party, the cash receipt is recorded and the deferred amounts are relieved. No fees or expenses are recorded for these reimbursements.

Monitoring Fees

Monitoring fees are earned by KKR for services provided to portfolio companies and are recognized as services are rendered. These fees are generally paid based on a fixed periodic schedule by the portfolio companies either in advance or in arrears and are separately negotiated for each portfolio company.

In connection with the monitoring of portfolio companies and certain unconsolidated funds, KKR receives reimbursement for certain expenses incurred on behalf of these entities. Costs incurred in monitoring these entities are classified as general,

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administrative and other expenses and reimbursements of such costs are classified as monitoring fees. In addition, certain monitoring fee provisions may provide for a termination payment following an initial public offering or change of control. These termination payments are recognized in the period when the related transaction closes.

Fee Credits

Agreements with the fund investors of certain of its investment funds require KKR to share with these fund investors an agreed upon percentage of certain fees, including monitoring and transaction fees received from portfolio companies (“Fee Credits”). Fund investors receive 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 fund-related expenses and generally amount to 80% for older funds, or 100% for our newer funds, of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund as well as among different classes of investors within a fund.

Carried Interest

For certain investment fund structures, carried interest is allocated to the general partner based on cumulative fund performance to date, and where applicable, subject to a preferred return to limited partners. At the end of each reporting period, KKR calculates the carried interest that would be due to KKR for each 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 as revenue, 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 make the required positive or negative adjustments. KKR ceases to record negative carried interest allocations once previously recognized carried interest allocations for a fund have been fully reversed. KKR is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative carried interest over the life of a fund. Accrued but unpaid carried interest as of the reporting date is reflected in Investments in the condensed consolidated statements of financial condition.

Incentive Fees

Incentive fees earned on the performance of certain hedge fund structures are recognized based on fund performance, subject to the achievement of minimum return levels, and/or high water marks, in accordance with the respective terms set out in each fund’s governing agreements. Incentive fee rates generally range from 5% to 20%. KKR does not record performance based incentive fees until the end of each fund’s measurement period (which is generally one year) when the performance based incentive fees become fixed and determinable.

Oil and Gas Revenue Recognition

Oil and gas revenues are recognized when production is sold to a purchaser at fixed or determinable prices, when delivery has occurred and title has transferred and collectability of the revenue is reasonably assured. The oil and gas producing entities consolidated by KKR follow the sales method of accounting for natural gas revenues. Under this method of accounting, revenues are recognized based on volumes sold, which may differ from the volume to which the entity is entitled based on KKR’s working interest. An imbalance is recognized as a liability only when the estimated remaining reserves will not be sufficient to enable the under-produced owners to recoup their entitled share through future production. Under the sales method, no receivables are recorded when these entities have taken less than their share of production and no payables are recorded when it has taken more than its share of production unless reserves are not sufficient.

Consulting Fees

Consulting fees are earned by certain consolidated entities that employ non-employee operating consultants from providing advisory and other services to portfolio companies and other companies and are recognized as the services are rendered. These fees are separately negotiated with each company for which services are provided and are not shared with KKR.

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Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers Topic 606 (“ASU 2014-09”) which has subsequently been amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2017-13. These ASUs outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Revenue recorded under ASU 2014-09 will depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. Early adoption will be permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. A full retrospective or modified retrospective approach is required.

Carried interest is a capital allocation to the general partner based on fund performance, and where applicable, subject to a preferred return to limited partners. KKR has concluded that capital allocation-based carried interest represents income from equity method investments that is not in the scope of ASU 2014-09. Accordingly, in connection with the adoption of ASU 2014-09, KKR will account for such carried interest as a financial instrument under the equity method of accounting within the scope of ASC 323, Investments - Equity Method and Joint Ventures (“ASC 323”). In accordance with ASC 323, KKR will record equity method income (losses) based on the change in KKR’s proportionate claim on the net assets of the investment fund, including performance-based capital allocations, assuming the investment fund was liquidated as of each reporting date pursuant to each investment fund’s governing agreements. As carried interest and the related general partner investments are considered to be a single unit of account under KKR’s new accounting policy, the equity method income associated with the general partner interests will be combined with the associated carried interest and reported in a single line within the statement of operations. KKR expects to apply this change in accounting on a full retrospective basis. The pattern and amount of recognition under the new policy is not expected to differ materially from KKR’s existing recognition. As it pertains to incentive fees, KKR expects the recognition of incentive fees, which are a form of variable consideration, to be deferred until such fees are no longer subject to significant reversal, which is consistent with KKR’s existing recognition treatment. Additionally, KKR is currently in the process of implementing the new revenue guidance and is continuing to evaluate the effect this guidance will have on other revenue streams. KKR expects to adopt the new revenue recognition guidance effective January 1, 2018.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Liabilities (“ASU 2016-01”). The amended guidance (i) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is currently required to be disclosed for financial instruments measured at fair value; (iii) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments and (iv) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amended guidance should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of

adoption. The amended guidance related to equity securities without readily determinable fair values (including the disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. KKR is currently evaluating the impact of this guidance on the financial statements.

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Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). 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.

Investments

In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting ("ASU 2016-07"), which simplifies the equity method of accounting by eliminating the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 is effective for all entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted for all entities. Entities are required to apply the guidance prospectively to increases in the level of ownership interest or degree of influence occurring after the ASU's effective date. Additional transition disclosures are not required upon adoption. This guidance has been adopted as of January 1, 2017 and did not have a material impact on KKR's results of operations or financial condition.

Equity-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. KKR adopted ASU 2016-09 on January 1, 2017 and will apply prospective application. In connection with this adoption, the most significant impacts to KKR relate to the following: (i) with respect to the tax impact of equity based compensation charges, KKR has accounted for the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes as an income tax expense or benefit in the statement of operations, (ii) KKR has classified this difference with other income tax cash flows as an operating activity in the statement of cash flows and (iii) KKR has made an election to continue to estimate the number of equity compensation awards that are expected to vest, net of forfeitures, over the life of an equity award and not account for forfeitures as they occur.

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. Early adoption is permitted. KKR is currently evaluating the impact of this guidance on the financial statements.

Cash Flow Classification

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

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guidance in the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The guidance must be applied retrospectively to all periods presented but may be applied prospectively from the earliest date practicable if retrospective application would be impracticable. KKR is currently evaluating the impact of this guidance on the financial statements.

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 in this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods therein. Early adoption is permitted. The guidance must be applied retrospectively to all periods presented. KKR is currently evaluating the impact of this guidance on the financial statements.

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. KKR is currently evaluating the impact of this guidance on the financial statements.

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. KKR is currently evaluating the impact of this guidance on the financial statements.

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.

Other Income

In February 2017, the FASB issued ASU No. 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The ASU conforms the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard (ASC 606, as amended). The effective date of the new guidance is aligned with the requirements in the new revenue standard, which is effective for annual and interim reporting periods beginning after December 15, 2017. The ASU allows an entity to use a full or modified retrospective adoption approach. KKR is currently evaluating the impact of this guidance on the financial statements.

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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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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 for the three and nine months ended September 30, 2017 and 2016, respectively:

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total
Private Equity ⁽¹⁾	\$74,483	\$ 77,299	\$ 151,782	\$172,390	\$ 37,465	\$ 209,855
Credit and Other ⁽¹⁾	(46,946)	35,882	(11,064)	(262,826)	256,137	(6,689)
Investments of Consolidated CFEs ⁽¹⁾	(83,797)	43,905	(39,892)	(18,697)	40,049	21,352
Real Assets ⁽¹⁾	24,479	56,217	80,696	28,803	70,700	99,503
Foreign Exchange Forward Contracts and Options ⁽²⁾	(26,043)	(69,046)	(95,089)	41,254	(63,997)	(22,743)
Securities Sold Short ⁽²⁾	(7,785)	14,369	6,584	232,448	29,545	261,993
Other Derivatives ⁽²⁾	(148)	(5,049)	(5,197)	(17,224)	14,472	(2,752)
Debt Obligations and Other ⁽³⁾	18,343	2,616	20,959	112,469	62,156	174,625
Net Gains (Losses) From Investment Activities	\$(47,414)	\$ 156,193	\$ 108,779	\$ 288,617	\$ 446,527	\$ 735,144
	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total
Private Equity ⁽¹⁾	\$202,549	\$ 372,335	\$ 574,884	\$370,266	\$ (412,303)	\$ (42,037)
Credit and Other ⁽¹⁾	(633,145)	740,499	107,354	(284,992)	(104,028)	(389,020)
Investments of Consolidated CFEs ⁽¹⁾	(88,677)	71,952	(16,725)	(239,502)	547,099	307,597
Real Assets ⁽¹⁾	(34,208)	233,608	199,400	41,158	66,927	108,085
Foreign Exchange Forward Contracts and Options ⁽²⁾	(7,975)	(311,427)	(319,402)	41,829	(75,398)	(33,569)
Securities Sold Short ⁽²⁾	497,926	66,037	563,963	231,474	(10,343)	221,131
Other Derivatives ⁽²⁾	(6,027)	(10,602)	(16,629)	(35,613)	40,081	4,468
Debt Obligations and Other ⁽³⁾	66,895	(74,085)	(7,190)	229,485	(397,051)	(167,566)
Net Gains (Losses) From Investment Activities	\$(2,662)	\$ 1,088,317	\$ 1,085,655	\$ 354,105	\$ (345,016)	\$ 9,089

(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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4. INVESTMENTS

Investments consist of the following:

	September 30, 2017	December 31, 2016
Private Equity	\$3,896,535	\$2,915,667
Credit	6,427,635	4,847,936
Investments of Consolidated CFEs	15,500,898	13,950,897
Real Assets	2,278,699	1,807,128
Equity Method	3,524,781	2,728,995
Carried Interest	2,697,294	2,384,177
Other	2,925,995	2,774,965
Total Investments	\$37,251,837	\$31,409,765

As of September 30, 2017 and December 31, 2016, there were no investments which represented greater than 5% of total investments. In addition, as of September 30, 2017 and December 31, 2016, investments totaling \$18.6 billion and \$16.1 billion, respectively, were pledged as direct collateral against various financing arrangements. See Note 10 “Debt Obligations.” The majority of the securities underlying private equity investments represent equity securities.

Carried Interest

Carried interest allocated to the general partner in respect of performance of investment funds that are not consolidated were as follows:

Balance at December 31, 2016	\$	2,384,177
Carried Interest Allocated as a result of Changes in Fund Fair Value	1,224,235	
Cash Proceeds Received	(911,118)
Balance at September 30, 2017	\$	2,697,294

5. FAIR VALUE MEASUREMENTS

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

Assets, at fair value:

	September 30, 2017			Total
	Level I	Level II	Level III	
Private Equity	\$1,194,887	\$93,524	\$2,608,124	\$3,896,535
Credit	—	1,694,761	4,732,874	6,427,635
Investments of Consolidated CFEs	—	10,090,782	5,410,116	15,500,898
Real Assets	36,751	39,948	2,202,000	2,278,699

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Equity Method	—	205,460	555,538	760,998
Other	1,117,473	38,511	1,770,011	2,925,995
Total	2,349,111	12,162,986	17,278,663	31,790,760
Foreign Exchange Contracts and Options	—	100,460	—	100,460
Other Derivatives	—	7,020	55,877	(1)62,897
Total Assets	\$2,349,111	\$12,270,466	\$17,334,540	\$31,954,117

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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 (1) 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.

	December 31, 2016			
	Level I	Level II	Level III	Total
Private Equity	\$1,240,108	\$116,000	\$1,559,559	\$2,915,667
Credit	—	1,557,575	3,290,361	4,847,936
Investments of Consolidated CFEs	—	8,544,677	5,406,220	13,950,897
Real Assets	—	—	1,807,128	1,807,128
Equity Method	—	220,896	570,522	791,418
Other	994,677	12,715	1,767,573	2,774,965
Total	2,234,785	10,451,863	14,401,363	27,088,011
Foreign Exchange Contracts and Options	—	240,627	—	240,627
Other Derivatives	—	81,593	—	81,593
Total Assets	\$2,234,785	\$10,774,083	\$14,401,363	\$27,410,231

Liabilities, at fair value:

	September 30, 2017			
	Level I	Level II	Level III	Total
Securities Sold Short	\$810,698	\$—	\$—	\$810,698
Foreign Exchange Contracts and Options	—	243,595	—	243,595
Unfunded Revolver Commitments	—	—	13,912	(1) 13,912
Other Derivatives	—	28,421	50,400	(2) 78,821
Debt Obligations of Consolidated CFEs	—	9,788,717	5,295,183	15,083,900
Total Liabilities	\$810,698	\$10,060,733	\$5,359,495	\$16,230,926

	December 31, 2016			
	Level I	Level II	Level III	Total
Securities Sold Short	\$644,196	\$3,038	\$—	\$647,234
Foreign Exchange Contracts and Options	—	75,218	—	75,218
Unfunded Revolver Commitments	—	9,023	—	9,023
Other Derivatives	—	44,015	56,000	(2) 100,015
Debt Obligations of Consolidated CFEs	—	8,563,547	5,294,741	13,858,288
Total Liabilities	\$644,196	\$8,694,841	\$5,350,741	\$14,689,778

(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 24.9% equity interest in Marshall Wace and its affiliates to increase KKR's ownership interest to 39.9% in periodic increments from 2017 to 2019. The option is 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 19 "Subsequent Events."

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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, 2017 and 2016, respectively:

Three Months Ended September 30, 2017

	Level III Investments							Level III Debt Obligations Debt Obligations of Consolidated CFEs
	Private Equity	Credit	Investments of Consolidated Real Assets CFEs	Equity Method	Other	Total		
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 Out								
Due to Deconsolidation of Funds	—	—	—	—	—	—	—	—
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)

Three Months Ended September 30, 2016

Level III Investments

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	Private Equity	Credit	Investments of Consolidated Real Assets CFEs	Real Assets	Equity Method	Other	Total	Level III Debt Obligations Debt Obligations of Consolidated CFEs
Balance, Beg. of Period	\$1,231,868	\$2,672,179	\$5,615,342	\$1,819,709	\$477,219	\$1,495,697	\$13,312,014	\$5,506,281
Transfers Out Due to Deconsolidation of Funds	—	—	—	—	—	—	—	—
Transfers In	—	1,677	—	—	—	—	1,677	—
Transfers Out	—	—	—	—	—	—	—	—
Asset Purchases / Debt Issuances	253,736	616,041	—	59,963	—	46,233	975,973	—
Sales / Paydowns	(43,789	) (168,342	) (8,993	) (164,419	) (725	) (16,677	) (402,945) —
Settlements	—	24,296	—	—	—	—	24,296	(8,993
Net Realized Gains (Losses)	17,386	(518	) —	28,803	225	(1,173	) 44,723	—
Net Unrealized Gains (Losses)	29,884	67,753	(61,670	) 70,700	28,465	54,798	189,930	(61,697
Change in Other Comprehensive Income	—	5,926	—	—	—	—	5,926	—
Balance, End of Period	\$1,489,085	\$3,219,012	\$5,544,679	\$1,814,756	\$505,184	\$1,578,878	\$14,151,594	\$5,435,591
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	\$46,895	\$67,140	\$(61,670) \$70,700	\$28,465	\$54,798	\$206,328	\$(61,697

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Nine Months Ended September 30, 2017

	Level III Investments							Level III Debt Obligations Debt Obligations of Consolidated CFEs
	Private Equity	Credit	Investments of Consolidated Real Assets CFEs	Real Assets	Equity Method	Other	Total	
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 Out								
Due to Deconsolidation of Funds	—	(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

Nine Months Ended September 30, 2016

	Level III Investments							Level III Debt Obligations
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	Private Equity	Credit	Investments of Consolidated Real Assets CFEs	Equity Method	Other	Total	Debt Obligations of Consolidated CFEs	
Balance, Beg. of Period	\$18,903,538	\$5,012,355	\$—	\$4,048,281	\$891,606	\$2,581,188	\$31,436,968	\$—
Transfers Out Due to Deconsolidation of Funds	(17,856,098)	(2,354,181)	—	(2,628,999)	—	(984,813)	(23,824,091)	—
Transfers In	—	45,427	4,343,829	—	—	—	4,389,256	4,272,081
Transfers Out	(104,000)	(760)	—	—	(311,270)	—	(416,030)	—
Asset Purchases / Debt Issuances	507,812	1,170,140	1,026,801	513,734	18,992	249,903	3,487,382	990,450
Sales / Paydowns	(43,789)	(648,416)	(23,910)	(237,176)	(61,111)	(147,495)	(1,161,897)	—
Settlements	—	74,474	—	—	—	—	74,474	(23,910)
Net Realized Gains (Losses)	17,386	(9,113)	—	41,158	(1,766)	(8,588)	39,077	—
Net Unrealized Gains (Losses)	64,236	(74,384)	197,959	77,758	(31,267)	(111,317)	122,985	196,970
Change in Other Comprehensive Income	—	3,470	—	—	—	—	3,470	—
Balance, End of Period	\$1,489,085	\$3,219,012	\$5,544,679	\$1,814,756	\$505,184	\$1,578,878	\$14,151,594	\$5,435,591
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	\$81,247	\$(74,997)	\$197,959	\$77,758	\$(31,267)	\$(135,067)	\$115,633	\$196,970

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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 summarizes the fair value transfers between fair value levels for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Assets, at fair value:				
Transfers from Level I to Level II ⁽¹⁾	\$53,416	\$—	\$53,416	\$73,600
Transfers from Level II to Level I ⁽⁴⁾	\$33,634	\$—	\$33,634	\$—
Transfers from Level II to Level III ⁽²⁾	\$—	\$1,677	\$—	\$4,389,256
Transfers from Level III to Level II ⁽³⁾	\$4,187	\$—	\$4,187	\$312,030
Transfers from Level III to Level I ⁽⁴⁾	\$—	\$—	\$1,496	\$104,000
Liabilities, at fair value:				
Transfers from Level II to Level III ⁽⁵⁾	\$—	\$—	\$—	\$4,272,081

(1) Transfers out of Level I into Level II are principally attributable to certain investments that are no longer valued using a publicly traded market price.

(2) Transfers out of Level II into Level III are principally attributable to certain investments that experienced an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

(3) Transfers out of Level III into Level II are principally attributable to certain investments that experienced a higher level of market activity during the period and thus were valued using observable inputs.

(4) Transfers out of Level III and Level II into Level I are attributable to portfolio companies that are valued using their publicly traded market price.

(5) Transfers out of Level II into Level III are principally attributable to debt obligations of CMBS vehicles due to an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

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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, 2017:

	Fair Value September 30, 2017	Valuation Methodologies	Unobservable Input(s) (1)	Weighted Average (2)	Range	Impact to Valuation from an Increase in Input (3)
Private Equity	\$2,608,124					
Private Equity	\$1,154,227		Illiquidity Discount	9.2%	5.0% - 15.0%	Decrease
		Inputs to market comparables, discounted cash flow and transaction price	Weight Ascribed to Market Comparables	48.3%	0.0% - 50.0%	(4)
			Weight Ascribed to Discounted Cash Flow	49.6%	0.0% - 100.0%	(5)
			Weight Ascribed to Transaction Price	2.1%	0.0% - 100.0%	(6)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	13.6x	6.4x - 26.1x	Increase
			Enterprise Value/Forward EBITDA Multiple	11.9x	5.7x - 22.0x	Increase
		Discounted cash flow	Weighted Average Cost of Capital	9.6%	6.8% - 13.8%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	10.6x	5.6x - 14.9x	Increase
Growth Equity	\$1,453,897		Illiquidity Discount	10.9%	8.0% - 20.0%	Decrease
		Inputs to market comparables, discounted cash flow and milestones	Weight Ascribed to Market Comparables	26.9%	0.0% - 100.0%	(4)
			Weight Ascribed to Discounted Cash Flow	4.9%	0.0% - 75.0%	(5)
			Weight Ascribed to Milestones	68.2%	0.0% - 100.0%	(6)
			Base	51.9%	30.0% - 80.0%	Increase
		Scenario Weighting	Downside	22.1%	5.0% - 40.0%	Decrease
			Upside	26.0%	10.0% - 45.0%	Increase
Credit	\$4,732,874		Yield	11.6%	3.6% - 37.6%	Decrease
		Yield Analysis	Net Leverage	4.9x	0.6x - 20.7x	Decrease
			EBITDA Multiple	10.1x	0.1x - 17.1x	Increase

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Investments of Consolidated CFEs	\$5,410,116(9)					
Debt Obligations of Consolidated CFEs	\$5,295,183	Discounted cash flow	Yield	5.5%	1.9% - 27.9%	Decrease
Real Assets	\$2,202,000(10)					
Energy	\$1,097,636	Discounted cash flow	Weighted Average Cost of Capital	10.1%	9.2% - 16.1%	Decrease
			Average Price Per BOE (8)	\$38.97	\$31.77 - \$41.84	Increase
Real Estate	\$881,465	Inputs to direct capitalization and discounted cash flow	Weight Ascribed to Direct Income Capitalization	34.3%	0.0% - 100.0%	(7)
		Direct income capitalization	Weight Ascribed to Discounted Cash Flow	65.7%	0.0% - 100.0%	(5)
		Discounted cash flow	Current Capitalization Rate	5.8%	2.9% - 8.7%	Decrease
			Unlevered Discount Rate	9.2%	4.5% - 20.0%	Decrease
Other	\$1,770,011		Illiquidity Discount	10.4%	5.0% - 15.0%	Decrease
		Inputs to market comparables, discounted cash flow and transaction price	Weight Ascribed to Market Comparables	27.1%	0.0% - 100.0%	(4)
			Weight Ascribed to Discounted Cash Flow	48.3%	0.0% - 100.0%	(5)
			Weight Ascribed to Transaction Price	24.6%	0.0% - 100.0%	(6)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	10.1x	0.1x - 17.4x	Increase
			Enterprise Value/Forward EBITDA Multiple	9.9x	4.6x - 15.1x	Increase
		Discounted cash flow	Weighted Average Cost of Capital	11.3%	5.5% - 21.1%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	6.4x	1.9x - 11.5x	Increase

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- 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
- (1) 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.

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
 - (3) would have the opposite effect. Significant increases and decreases in these inputs in isolation could result in significantly higher or lower fair value measurements.

The directional change from an increase in the weight ascribed to the market comparables approach would increase
 - (4) 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.

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
 - (5) 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 and transaction price.

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 results in a higher valuation than the
 - (6) market comparables and discounted cash flow approach. The opposite would be true if the transaction price results in a lower valuation than the market comparables approach and discounted cash flow approach.

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
 - (7) 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.

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, or 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 86% liquids and 14% natural gas.
 - (8) 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."
 - (9) Includes one Infrastructure investment for \$222.9 million that was valued using a discounted cash flow analysis.
 - (10) The significant inputs used included the weighted average cost of capital 7.7% and the enterprise value/LTM EBITDA Exit Multiple 12.0x.

The table above excludes equity method investments in the amount of \$555.5 million, comprised primarily of interests in real estate joint ventures, which were valued using Level III value methodologies which are generally the same as those shown for real estate investments.

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.

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6. FAIR VALUE OPTION

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

	September 30, 2017	December 31, 2016
Assets		
Private Equity	\$573,555	\$96,721
Credit	3,338,434	1,392,525
Investments of Consolidated CFEs	15,500,898	13,950,897
Real Assets	400,991	247,376
Equity Method	760,998	791,418
Other	374,271	240,343
Total	\$20,949,147	\$16,719,280
Liabilities		
Debt Obligations of Consolidated CFEs	\$15,083,900	\$13,858,288
Total	\$15,083,900	\$13,858,288

The following tables present the realized and net change in unrealized gains (losses) on financial instruments on which the fair value option was elected for the three and nine months ended September 30, 2017 and 2016, respectively:

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total
Assets						
Private Equity	\$2,981	\$(6,692)	\$(3,711)	\$—	\$(446)	\$(446)
Credit	6,878	(10,835)	(3,957)	(31,310)	12,376	(18,934)
Investments of Consolidated CFEs	(83,797)	43,905	(39,892)	(18,697)	40,049	21,352
Real Assets	12,611	10,498	23,109	2,945	(2,051)	894
Equity Method	6,282	(29)	6,253	225	42,525	42,750
Other	(5,457)	12,348	6,891	(762)	(11,016)	(11,778)
Total	\$(60,502)	\$49,195	\$(11,307)	\$(47,599)	\$81,437	\$33,838
Liabilities						
Debt Obligations of Consolidated CFEs	13,403	24,483	37,886	107,844	68,658	176,502
Total	\$13,403	\$24,483	\$37,886	\$107,844	\$68,658	\$176,502

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total
Assets						
Private Equity	\$3,670	\$33,803	\$37,473	\$—	\$(2,744)	\$(2,744)
Credit	(401,720)	74,003	(327,717)	(26,293)	(29,662)	(55,955)
Investments of Consolidated CFEs	(88,677)	71,952	(16,725)	(239,502)	547,099	307,597

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Real Assets	12,425	58,108	70,533	2,945	8,544	11,489
Equity Method	6,908	(3,075)	3,833	(1,766)	(58,572)	(60,338)
Other	(27,602)	25,158	(2,444)	(2,578)	(30,013)	(32,591)
Total	\$(494,996)	\$259,949	\$(235,047)	\$(267,194)	\$434,652	\$167,458

Liabilities

Debt Obligations of Consolidated CFEs	53,849	(30,490)	23,359	210,386	(378,505)	(168,119)
Total	\$53,849	\$(30,490)	\$23,359	\$210,386	\$(378,505)	\$(168,119)

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7. NET INCOME (LOSS) ATTRIBUTABLE TO KKR & CO. L.P. PER COMMON UNIT

For the three and nine months ended September 30, 2017 and 2016, basic and diluted Net Income (Loss) attributable to KKR & Co. L.P. per common unit were calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income (Loss) Attributable to KKR & Co. L.P. Common Unitholders	\$ 153,563	\$ 352,152	\$ 818,552	\$ 116,103
Basic Net Income (Loss) Per Common Unit				
Weighted Average Common Units Outstanding - Basic	471,758,886	445,989,300	1,639,410,844	1,448,149,747
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit - Basic	\$ 0.33	\$ 0.79	\$ 1.76	\$ 0.26
Diluted Net Income (Loss) Per Common Unit				
Weighted Average Common Units Outstanding - Basic	471,758,886	445,989,300	1,639,410,844	1,448,149,747
Weighted Average Unvested Common Units and Other Exchangeable Securities	35,114,291	33,986,375	37,674,551	34,985,238
Weighted Average Common Units Outstanding - Diluted	506,873,177	479,975,675	1,677,085,395	1,483,134,985
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit - Diluted	\$ 0.30	\$ 0.73	\$ 1.63	\$ 0.24

Weighted Average Common Units Outstanding—Diluted primarily includes unvested equity awards that have been granted under 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 and KKR Holdings pro rata in accordance with their respective ownership interests in the KKR Group Partnerships.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Weighted Average KKR Holdings Units Outstanding	341,214,527	357,528,999	346,716,489	358,853,469

For the three and nine months ended September 30, 2017 and 2016, KKR Holdings units have been excluded from the calculation of Net Income (Loss) attributable to KKR & Co. L.P. per common unit - diluted since the exchange of these units would not dilute KKR's respective ownership interests in the KKR Group Partnerships.

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

Other Assets consist of the following:

	September 30, 2017	December 31, 2016
Unsettled Investment Sales ⁽¹⁾	\$200,470	\$144,600
Receivables	172,788	49,279
Due from Broker ⁽²⁾	819,492	1,084,602
Oil & Gas Assets, net ⁽³⁾	258,431	276,694
Deferred Tax Assets, net	281,583	286,948
Interest Receivable	215,338	158,511
Fixed Assets, net ⁽⁴⁾	341,800	283,262
Foreign Exchange Contracts and Options ⁽⁵⁾	100,460	240,627
Intangible Assets, net ⁽⁶⁾	17,438	135,024
Goodwill ⁽⁶⁾	83,500	89,000
Derivative Assets	62,897	81,593
Deferred Transaction Related Expenses	56,322	17,688
Prepaid Taxes	46,085	46,996
Prepaid Expenses	30,150	17,761
Deferred Financing Costs	8,747	10,507
Other	63,821	73,773
Total	\$2,759,322	\$2,996,865

(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.

Net of accumulated depreciation and amortization of \$153,053 and \$141,911 as of September 30, 2017 and December 31, 2016, respectively. Depreciation and amortization expense of \$3,710 and \$4,121 for the three (4) months ended September 30, 2017 and 2016, respectively, and \$11,774 and \$12,025 for the nine months ended September 30, 2017 and 2016, 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.

(6) See Note 16 "Goodwill and Intangible Assets."

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

	September 30, 2017	December 31, 2016
Amounts Payable to Carry Pool ⁽¹⁾	\$1,131,071	\$987,994
Unsettled Investment Purchases ⁽²⁾	811,340	722,076
Securities Sold Short ⁽³⁾	810,698	647,234
Derivative Liabilities	78,821	100,015
Accrued Compensation and Benefits	269,826	20,764
Interest Payable	150,781	114,894
Foreign Exchange Contracts and Options ⁽⁴⁾	243,595	75,218
Accounts Payable and Accrued Expenses	131,556	114,854
Deferred Rent	18,789	19,144
Taxes Payable	32,271	12,514
Redemptions Payable	—	4,021
Due to Broker ⁽⁵⁾	—	83,206
Other Liabilities	90,934	79,326
Total	\$3,769,682	\$2,981,260

(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.

(5) Represents amounts owed for securities transactions initiated at clearing brokers.

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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 \$4.2 billion at September 30, 2017. 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, 2017, KKR's commitments to these unconsolidated investment funds was \$2.3 billion. KKR has not provided any financial support other than its obligated amount as of September 30, 2017.

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 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, 2017, 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 \$1.0 million as of September 30, 2017. 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, 2017 and December 31, 2016, 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	December
30, 2017	31, 2016

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Investments	\$4,151,598	\$3,632,162
Due from (to) Affiliates, net	134,308	(60,604)
Maximum Exposure to Loss	\$4,285,906	\$3,571,558

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10. DEBT OBLIGATIONS

KKR borrows and enters into credit agreements and issues debt for its general operating and investment purposes. 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, 2017			December 31, 2016		
	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	488,256	—	—	500,000	—	—
KCM Short-Term Credit Agreement	750,000	—	—	—	—	—
Notes Issued:						
KKR Issued 6.375% Notes Due 2020 ⁽¹⁾	—	498,243	556,655	(10) —	497,804	562,960 (10)
KKR Issued 5.500% Notes Due 2043 ⁽²⁾	—	491,412	564,560	(10) —	491,158	502,800 (10)
KKR Issued 5.125% Notes Due 2044 ⁽³⁾	—	990,283	1,081,200	(10) —	990,009	955,240 (10)
KFN Issued 5.500% Notes Due 2032 ⁽⁴⁾	—	367,852	377,656	—	—	—
KFN Issued 7.500% Notes Due 2042 ⁽⁵⁾	—	—	—	—	123,008	116,699 (11)
KFN Issued Junior Subordinated Notes ⁽⁶⁾	—	235,684	201,400	—	250,154	210,084
Other Consolidated Debt Obligations:						
Fund Financing Facilities and Other ⁽⁷⁾	2,028,972	2,623,340	2,623,340	(12) 2,039,532	2,333,654	2,333,654 (12)
CLO Senior Secured Notes ⁽⁸⁾	—	9,499,495	9,499,495	—	8,279,812	8,279,812
CLO Subordinated Notes ⁽⁸⁾	—	289,222	289,222	—	283,735	283,735
CMBS Debt Obligations ⁽⁹⁾	—	5,295,183	5,295,183	—	5,294,741	5,294,741
	\$4,267,228	\$20,290,714	\$20,488,711	\$3,539,532	\$18,544,075	\$18,539,725

(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 \$1.1 million and \$1.4 million as of September 30, 2017 and December 31, 2016, 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 \$3.8 million and \$3.9 million as of September 30, 2017 and December 31, 2016, 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 \$8.4 million and \$8.6 million as of September 30, 2017 and December 31, 2016, respectively.

KKR consolidates KFN and thus reports KFN's outstanding \$375 million aggregate principal amount of 5.500% senior unsecured notes due 2032. Borrowing outstanding is presented net of i) unamortized note discount and ii) unamortized debt issuance costs of \$4.6 million as of September 30, 2017. 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.

KKR consolidates KFN and thus reports KFN's outstanding \$115 million aggregate principal amount of 7.500% senior notes due 2042. These senior notes were redeemed in April 2017. Borrowing outstanding is presented net of unamortized note premium as of December 31, 2016.

(6) KKR consolidates KFN and thus reports KFN's outstanding \$264.8 million aggregate principal amount of junior subordinated notes. The weighted average interest rate is 3.8% and the weighted average years to maturity is 19.3 years as of September 30, 2017. 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.

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Certain of KKR's consolidated investment funds have entered into financing arrangements with major financial institutions, generally to enable such investment funds to make investments prior to or without receiving capital (7) from fund limited partners. The weighted average interest rate is 2.9% and 2.4% as of September 30, 2017 and December 31, 2016, respectively. In addition, the weighted average years to maturity is 3.8 years and 2.4 years as of September 30, 2017 and December 31, 2016, respectively.

(8) 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."

(9) 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."

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

(11) The notes are classified as Level I within the fair value hierarchy and fair value is determined by quoted prices in active markets since the debt is publicly listed.

(12) Carrying value approximates fair value given the fund financing facilities' interest rates are variable.

Revolving Credit Facilities

KCM Short-Term Credit Agreement

On June 29, 2017, KKR Capital Markets ("KCM") entered into a 364-day revolving credit agreement (the "KCM Short-Term Credit Agreement") with a major financial institution for use in KKR's capital markets business. This financial institution also provides the existing KCM Credit Agreement. The KCM Short-Term Credit Agreement provides for revolving borrowings of up to \$750 million, expires on June 28, 2018, and ranks pari passu with the KCM Credit Agreement. Borrowings under the KCM Short-Term Credit Agreement may only be used to facilitate the settlement of debt transactions syndicated by KKR's capital markets business. Obligations under the KCM Short-Term Credit Agreement are limited solely to entities involved in KKR's capital markets business, and liabilities under the KCM Short-Term Credit Agreement are non-recourse to other parts of KKR.

If a borrowing is made under the KCM Short-Term Credit 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 alternate base rate 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.

For the three and nine months ended September 30, 2017, \$145 million was borrowed and repaid under the KCM Short-Term Credit Agreement.

Notes Issuances and Redemptions

KFN Issued 5.500% Notes Due 2032

On March 30, 2017, KFN issued \$375.0 million par amount of 5.500% Senior Unsecured Notes ("KFN 2032 Senior Unsecured Notes") in a private placement, resulting in net proceeds to KFN of \$368.6 million. Interest on the KFN 2032 Senior Unsecured Notes is payable semi-annually on March 30th and September 30th. The KFN 2032 Senior Unsecured Notes will mature on March 30, 2032. KFN may redeem the KFN 2032 Senior Unsecured Notes in whole, but not in part, at a redemption price equal to 100% of the outstanding principal amount plus accrued and unpaid interest to, but excluding, the date of redemption on or after March 30, 2022 and annually thereafter, after providing notice to noteholders of such redemption not less than 30 and no more than 60 business days prior to such redemption date. At any time prior to March 30, 2022, KFN may redeem the KFN 2032 Senior Unsecured Notes in whole, but not

in part, at a redemption price equal to (i) 100% of the outstanding principal amount, (ii) plus accrued and unpaid interest to, but excluding, the date of redemption, (iii) plus the excess, if any, of (a) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes (as if the Notes matured on March 30, 2022), discounted to the redemption date on a semi-annual basis (assuming a 360-day year of twelve 30-day months) at a rate equal to the sum of the applicable treasury rate plus 50 basis points, minus accrued and unpaid interest, if any, on the KFN 2032 Senior Unsecured Notes being redeemed to, but excluding, the redemption date over (b) the principal amount of the KFN 2032 Senior Unsecured Notes being redeemed.

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KFN Issued 7.500% Notes Due 2042

On April 24, 2017, KFN redeemed all of its outstanding 7.500% Senior Notes due 2042 (the “KFN 2042 Senior Notes”) for cash, in accordance with the optional redemption provisions provided in the documents governing the KFN 2042 Senior Notes. The redemption price was equal to 100% of the principal amount of the KFN 2042 Senior Notes plus unpaid interest accrued thereon to, but excluding, the redemption date, in accordance with the terms of the KFN 2042 Senior Notes.

Other Consolidated Debt Obligations

Debt Obligations of Consolidated CFEs

As of September 30, 2017, 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	\$9,499,495	2.7 %	11.6
Subordinated Notes of Consolidated CLOs	289,222	(1)	11.5
Debt Obligations of Consolidated CMBS Vehicles	5,295,183	4.4 %	26.9
	\$15,083,900		

The subordinated notes do not have contractual interest rates but instead receive a pro rata amount of the net (1) 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, 2017, the fair value of the consolidated CFE assets was \$16.6 billion. This collateral consisted of Cash and Cash Equivalents Held at Consolidated Entities, Investments, and Other Assets.

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11. INCOME TAXES

The consolidated entities of KKR are generally treated as partnerships or disregarded entities for U.S. and non-U.S. tax purposes. The taxes payable on the income generated by partnerships and disregarded entities are generally paid by the fund investors, unitholders, principals and other third parties who beneficially own such partnerships and disregarded entities and are generally not payable by KKR. However, certain consolidated entities are or are treated as corporations for U.S. and non-U.S. tax purposes and are therefore subject to U.S. federal, state and/or local income taxes and/or non-U.S. taxes at the entity-level. In addition, certain consolidated entities which are treated as partnerships for U.S. tax purposes are subject to the New York City Unincorporated Business Tax or other local taxes.

The effective tax rates were 4.64% and 1.10% for the three months ended September 30, 2017 and 2016, respectively, and 3.65% and 3.70% for the nine months ended September 30, 2017 and 2016, 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) a significant portion of the amount of the reported net income (loss) before taxes attributable to KKR is from certain entities that are not subject to U.S. federal, state or local income taxes and/or non-U.S. taxes, and (iii) certain compensation charges attributable to KKR are not deductible for tax purposes.

During the three and nine month period ended September 30, 2017, 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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12. EQUITY BASED COMPENSATION

The following table summarizes the expense associated with equity based compensation for the three and nine months ended September 30, 2017 and 2016, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Equity Incentive Plan Units	\$54,921	\$50,270	\$149,840	\$148,257
KKR Holdings Principal Awards	17,622	7,425	89,869	21,138
Other Exchangeable Securities	—	3,460	—	10,306
Discretionary Compensation	6,185	397	37,995	6,331
Total ⁽¹⁾	\$78,728	\$61,552	\$277,704	\$186,032

Includes \$6,478 of equity based charges for the three and nine months ended September 30, 2017 related to (1) employees of equity method investees. Such amounts are included in Net Gains (Losses) from Investment Activities in the condensed 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. L.P. common units. Vested awards under the Equity Incentive Plan dilute KKR & Co. L.P. common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR Group Partnerships.

The total number of common units that may be issued under the Equity Incentive Plan is equivalent to 15% of the number of fully diluted common units 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 common unit 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. L.P. common units on the date of grant, discounted for the lack of participation rights in the expected distributions on unvested units. Beginning with the financial results reported for the first quarter of 2017, KKR intends to make quarterly distributions to common unitholders of \$0.17 per common unit per quarter or \$0.68 per year. Therefore, for units granted on or after January 1, 2017, the discount for lack of participation rights in the expected distributions on unvested units is based on the \$0.68 annual distribution. KKR has made equal quarterly distributions to holders of its common units of \$0.16 per common unit per quarter or \$0.64 per year in respect of financial results reported for the first quarter of 2016 through the fourth quarter of 2016. Accordingly, for units granted subsequent to December 31, 2015 but before January 1, 2017, the discount for the lack of participation rights in the expected distributions on unvested units was based on the \$0.64 annual distribution. The discount range for awards granted prior to December 31, 2015 was based on management's estimates of future distributions that the unvested equity awards would not be entitled to receive between the grant date and the vesting date which ranged from 8% to 56%.

Expense is recognized on a straight line basis over the life of the award and assumes a forfeiture rate of up to 8% annually based upon expected turnover by class of recipient.

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As of September 30, 2017, there was approximately \$275.6 million of estimated unrecognized expense related to unvested awards. That cost is expected to be recognized as follows:

Year	Unrecognized Expense (in millions)
Remainder of 2017	\$ 40.1
2018	128.7
2019	75.4
2020	23.9
2021	5.1
2022	1.5
2023	0.9
Total	\$ 275.6

A summary of the status of unvested awards granted under the Equity Incentive Plan from January 1, 2017 through September 30, 2017 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2017	37,498,333	\$ 13.85
Granted	3,635,101	15.67
Vested	(8,326,078)	14.79
Forfeited	(1,734,984)	13.72
Balance, September 30, 2017	31,072,372	\$ 13.82

The weighted average remaining vesting period over which unvested awards are expected to vest is 1.2 years.

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

Vesting Date	Units
October 1, 2017	3,855,649
April 1, 2018	9,848,499
October 1, 2018	3,262,341
April 1, 2019	6,816,127
October 1, 2019	1,839,242
April 1, 2020	3,721,944
October 1, 2020	611,015
April 1, 2021	638,955
October 1, 2021	211,172
April 1, 2022	85,084
October 1, 2022	91,172
October 1, 2023	91,172
	31,072,372

KKR Holdings Awards

KKR Holdings units are exchangeable for KKR Group Partnership Units and allow for their exchange into common units of KKR & Co. L.P. on a one-for one basis. As of September 30, 2017 and 2016, KKR Holdings owned approximately 41.8% or 339,845,707 and 44.4%, or 356,686,744 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 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

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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.

Because KKR Holdings is a partnership, all of the 339,845,707 KKR Holdings units have been legally allocated, but the allocation of 10,402,858 of these units has not been communicated to each respective principal and the final allocation and terms of vesting for these units are subject to change and the exercise of judgment by the general partner of KKR Holdings. It was therefore determined that the grant date and service inception date had not occurred and these units do not yet meet the criteria for recognition of compensation expense.

The fair value of awards granted out of KKR Holdings is generally based on the closing price of KKR & Co L.P. common units on the date of grant. KKR determined this to be the best evidence of fair value as a KKR & Co. L.P. common unit 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 a KKR & Co. L.P. common unit. Specifically, units in both KKR Holdings and KKR & Co. L.P. 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 KKR & Co. L.P. common unit on a one-for-one basis.

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 common units 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. Beginning with the financial results reported for the first quarter of 2017, KKR intends to make quarterly distributions to common unitholders of \$0.17 per common unit per quarter or \$0.68 per year. Therefore, for awards granted on or after January 1, 2017, the discount for lack of participation rights in the expected distributions on unvested units is based on the \$0.68 annual distribution. KKR has made equal quarterly distributions to holders of its common units of \$0.16 per common unit per quarter or \$0.64 per year in respect of financial results reported for the first quarter of 2016 through the fourth quarter of 2016. Accordingly, for awards granted subsequent to December 31, 2015 but before January 1, 2017, the discount for the lack of participation rights in the expected distributions on unvested units was based on the \$0.64 annual distribution.

Expense is recognized on a straight line basis over the life of the award and assumes a forfeiture rate of up to 8% annually based on expected turnover by class of recipient.

As of September 30, 2017, there was approximately \$207.2 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 2017	\$ 17.4
2018	63.0
2019	57.3
2020	52.4
2021	17.1
Total	\$ 207.2

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A summary of the status of unvested awards granted under the KKR Holdings Plan from January 1, 2017 through September 30, 2017 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2017	28,245,886	\$ 12.10
Granted	—	—
Vested	(5,968,939)	13.97
Forfeited	(1,537,807)	11.76
Balance, September 30, 2017	20,739,140	\$ 11.59

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

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

Vesting Date	Units
October 1, 2017	93,486
April 1, 2018	824,999
May 1, 2018	4,820,000
April 1, 2019	349,143
May 1, 2019	4,820,000
April 1, 2020	191,512
May 1, 2020	4,820,000
May 1, 2021	4,820,000
	20,739,140

Other Exchangeable Securities

As of October 1, 2016, all equity securities of a subsidiary of a KKR Group Partnership and of KKR & Co. L.P. both of which are exchangeable into common units of KKR & Co. L.P. on a one-for-one basis issued in connection with the acquisition of Avoca ("Other Exchangeable Securities") have either vested or forfeited, and there is no unrecognized expense associated with Other Exchangeable Securities as of September 30, 2017.

Discretionary Compensation

KKR employees and certain employees of certain consolidated entities are eligible to receive discretionary cash bonuses. While cash bonuses paid to most employees are borne by KKR and certain consolidated entities and result in customary compensation and benefits expense, cash bonuses that are paid to certain principals are currently borne by KKR Holdings. These compensation charges are currently recorded based on the amount of cash expected to be paid by KKR Holdings.

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13. RELATED PARTY TRANSACTIONS

Due from Affiliates consists of:

	September 30, 2017	December 31, 2016
Amounts due from portfolio companies	\$ 105,277	\$ 66,940
Amounts due from unconsolidated investment funds	371,726	170,219
Amounts due from related entities	7,001	13,293
Due from Affiliates	\$ 484,004	\$ 250,452

Due to Affiliates consists of:

	September 30, 2017	December 31, 2016
Amounts due to KKR Holdings in connection with the tax receivable agreement	\$ 141,891	\$ 128,091
Amounts due to unconsolidated investment funds	237,418	230,823
Amounts due to related entities	500	565
Due to Affiliates	\$ 379,809	\$ 359,479

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14. SEGMENT REPORTING

KKR operates through four reportable business segments. These segments, which are differentiated primarily by their business objectives and investment strategies, are presented below. These financial results represent the combined financial results of the KKR Group Partnerships on a segment basis. KKR earns the majority of its fees from subsidiaries located in the United States.

Private Markets

Through KKR's Private Markets segment, 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. KKR also manages and sponsors investment funds and co-investment vehicles that invest capital in real assets, such as infrastructure, energy and real estate.

Public Markets

KKR operates and reports its combined credit and hedge funds businesses through the Public Markets segment. KKR's credit business invests capital in leveraged credit strategies, including leveraged loans, high yield bonds and opportunistic credit, and alternative credit strategies including special situations and private credit opportunities, such as mezzanine or private credit opportunities, direct lending, and revolving credit investment strategies. KKR's hedge funds business consists of strategic manager partnerships with third party hedge fund managers in which KKR owns minority stakes.

Capital Markets

KKR's global capital markets business 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 for transactions, placing and underwriting securities offerings and providing other types of capital markets services.

Principal Activities

Through KKR's Principal Activities segment, we manage the firm's assets and deploy capital to support and grow our businesses.

KKR's Principal Activities segment uses its balance sheet assets to support KKR's investment management and capital markets businesses, including to make capital commitments as general partner to its funds, to seed new businesses or investments for new funds or to bridge capital selectively for its funds' investments.

The Principal Activities segment also provides the required capital to fund the various commitments of KKR's Capital Markets business or to meet regulatory capital requirements.

Key Performance Measure - Economic Net Income ("ENI")

ENI is used by management in making operating and resource deployment decisions as well as assessing the overall performance of each of KKR's reportable business segments. The reportable segments for KKR's business are presented prior to giving effect to the allocation of income (loss) between KKR & Co. L.P. and KKR Holdings and as such represents the business in total. In addition, KKR's reportable segments are presented without giving effect to the consolidation of the funds that KKR manages.

ENI is a measure of profitability for KKR's reportable segments and is used by management as an alternative measurement of the operating and investment earnings of KKR and its business segments. ENI is comprised of total segment revenues; less total segment expenses and certain economic interests in KKR's segments held by third parties.

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The following tables present the financial data for KKR's reportable segments:

	As of and for the Three Months Ended September 30, 2017				
	Private Markets	Public Markets	Capital Markets	Principal Activities	Total Reportable Segments
Segment Revenues					
Management, Monitoring and Transaction Fees, Net					
Management Fees	\$ 153,841	\$ 79,113	\$—	\$—	\$ 232,954
Monitoring Fees	14,342	—	—	—	14,342
Transaction Fees	82,258	11,469	85,440	—	179,167
Fee Credits	(59,854)	(10,893)	—	—	(70,747)
Total Management, Monitoring and Transaction Fees, Net	190,587	79,689	85,440	—	355,716
Performance Income (Loss)					
Realized Incentive Fees	—	4,074	—	—	4,074
Realized Carried Interest	419,438	—	—	—	419,438
Unrealized Carried Interest	(96,571)	36,933	—	—	(59,638)
Total Performance Income (Loss)	322,867	41,007	—	—	363,874
Investment Income (Loss)					
Net Realized Gains (Losses)	—	—	—	76,053	76,053
Net Unrealized Gains (Losses)	—	—	—	(50,902)	(50,902)
Total Realized and Unrealized Interest Income and Dividends	—	—	—	25,151	25,151
Interest Expense	—	—	—	70,557	70,557
Interest Expense	—	—	—	(45,613)	(45,613)
Net Interest and Dividends	—	—	—	24,944	24,944
Total Investment Income (Loss)	—	—	—	50,095	50,095
Total Segment Revenues	513,454	120,696	85,440	50,095	769,685
Segment Expenses					
Compensation and Benefits					
Cash Compensation and Benefits	63,482	16,257	16,924	33,958	130,621
Realized Performance Income Compensation	176,075	1,630	—	—	177,705
Unrealized Performance Income Compensation	(36,379)	16,553	—	—	(19,826)
Total Compensation and Benefits	203,178	34,440	16,924	33,958	288,500
Occupancy and Related Charges	8,537	1,535	760	3,840	14,672
Other Operating Expenses	42,376	7,672	6,293	14,176	70,517
Total Segment Expenses	254,091	43,647	23,977	51,974	373,689
Income (Loss) attributable to noncontrolling interests	—	—	1,046	—	1,046
Economic Net Income (Loss)	\$ 259,363	\$ 77,049	\$ 60,417	\$ (1,879)	\$ 394,950
Total Assets	\$ 2,123,892	\$ 1,313,920	\$ 458,269	\$ 11,451,918	\$ 15,347,999

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	As of and for the Three Months Ended September 30, 2016				
	Private Markets	Public Markets	Capital Markets	Principal Activities	Total Reportable Segments
Segment Revenues					
Management, Monitoring and Transaction Fees, Net					
Management Fees	\$ 117,795	\$ 83,713	\$ —	\$ —	\$ 201,508
Monitoring Fees	11,091	—	—	—	11,091
Transaction Fees	53,223	10,748	47,383	—	111,354
Fee Credits	(37,127)	(10,265)	—	—	(47,392)
Total Management, Monitoring and Transaction Fees, Net	144,982	84,196	47,383	—	276,561
Performance Income (Loss)					
Realized Incentive Fees	—	3,659	—	—	3,659
Realized Carried Interest	350,469	—	—	—	350,469
Unrealized Carried Interest	53,339	17,012	—	—	70,351
Total Performance Income (Loss)	403,808	20,671	—	—	424,479
Investment Income (Loss)					
Net Realized Gains (Losses)	—	—	—	170,078	170,078
Net Unrealized Gains (Losses)	—	—	—	136,740	136,740
Total Realized and Unrealized Interest Income and Dividends	—	—	—	306,818	306,818
Interest Expense	—	—	—	71,185	71,185
Interest Expense	—	—	—	(47,506)	(47,506)
Net Interest and Dividends	—	—	—	23,679	23,679
Total Investment Income (Loss)	—	—	—	330,497	330,497
Total Segment Revenues	548,790	104,867	47,383	330,497	1,031,537
Segment Expenses					
Compensation and Benefits					
Cash Compensation and Benefits	47,858	22,022	7,803	24,284	101,967
Realized Performance Income Compensation	157,688	1,463	—	—	159,151
Unrealized Performance Income Compensation	22,588	6,805	—	—	29,393
Total Compensation and Benefits	228,134	30,290	7,803	24,284	290,511
Occupancy and Related Charges	9,248	2,570	330	3,729	15,877
Other Operating Expenses	32,031	8,894	3,552	10,646	55,123
Total Segment Expenses	269,413	41,754	11,685	38,659	361,511
Income (Loss) attributable to noncontrolling interests	—	—	760	—	760
Economic Net Income (Loss)	\$ 279,377	\$ 63,113	\$ 34,938	\$ 291,838	\$ 669,266
Total Assets	\$ 1,835,166	\$ 1,179,955	\$ 403,609	\$ 10,119,919	\$ 13,538,649

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	As of and for the Nine Months Ended September 30, 2017				
	Private Markets	Public Markets	Capital Markets	Principal Activities	Total Reportable Segments
Segment Revenues					
Management, Monitoring and Transaction Fees, Net					
Management Fees	\$419,606	\$251,201	\$—	\$—	\$670,807
Monitoring Fees	58,072	—	—	—	58,072
Transaction Fees	237,392	41,040	300,235	—	578,667
Fee Credits	(177,254)	(33,894)	—	—	(211,148)
Total Management, Monitoring and Transaction Fees, Net	537,816	258,347	300,235	—	1,096,398
Performance Income (Loss)					
Realized Incentive Fees	—	8,384	—	—	8,384
Realized Carried Interest	890,310	—	—	—	890,310
Unrealized Carried Interest	305,945	71,762	—	—	377,707
Total Performance Income (Loss)	1,196,255	80,146	—	—	1,276,401
Investment Income (Loss)					
Net Realized Gains (Losses)	—	—	—	162,684	162,684
Net Unrealized Gains (Losses)	—	—	—	461,111	461,111
Total Realized and Unrealized	—	—	—	623,795	623,795
Interest Income and Dividends	—	—	—	195,275	195,275
Interest Expense	—	—	—	(134,348)	(134,348)
Net Interest and Dividends	—	—	—	60,927	60,927
Total Investment Income (Loss)	—	—	—	684,722	684,722
Total Segment Revenues	1,734,071	338,493	300,235	684,722	3,057,521
Segment Expenses					
Compensation and Benefits					
Cash Compensation and Benefits	183,943	58,991	57,053	105,591	405,578
Realized Performance Income Compensation	374,335	3,354	—	—	377,689
Unrealized Performance Income Compensation	126,677	30,485	—	—	157,162
Total Compensation and Benefits	684,955	92,830	57,053	105,591	940,429
Occupancy and Related Charges	24,174	5,140	2,052	11,082	42,448
Other Operating Expenses	97,255	24,244	15,320	40,265	177,084
Total Segment Expenses	806,384	122,214	74,425	156,938	1,159,961
Income (Loss) attributable to noncontrolling interests	—	—	3,810	—	3,810
Economic Net Income (Loss)	\$927,687	\$216,279	\$222,000	\$527,784	\$1,893,750
Total Assets	\$2,123,892	\$1,313,920	\$458,269	\$11,451,918	\$15,347,999

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	As of and for the Nine Months Ended September 30, 2016				
	Private Markets	Public Markets	Capital Markets	Principal Activities	Total Reportable Segments
Segment Revenues					
Management, Monitoring and Transaction Fees, Net					
Management Fees	\$354,376	\$245,349	\$—	\$—	\$599,725
Monitoring Fees	52,126	—	—	—	52,126
Transaction Fees	114,021	17,768	144,214	—	276,003
Fee Credits	(93,042)	(16,230)	—	—	(109,272)
Total Management, Monitoring and Transaction Fees, Net	427,481	246,887	144,214	—	818,582
Performance Income (Loss)					
Realized Incentive Fees	—	9,897	—	—	9,897
Realized Carried Interest	749,194	3,838	—	—	753,032
Unrealized Carried Interest	(131,386)	(3,370)	—	—	(134,756)
Total Performance Income (Loss)	617,808	10,365	—	—	628,173
Investment Income (Loss)					
Net Realized Gains (Losses)	—	—	—	370,594	370,594
Net Unrealized Gains (Losses)	—	—	—	(725,699)	(725,699)
Total Realized and Unrealized Interest Income and Dividends	—	—	—	253,756	253,756
Interest Expense	—	—	—	(144,497)	(144,497)
Net Interest and Dividends	—	—	—	109,259	109,259
Total Investment Income (Loss)	—	—	—	(245,846)	(245,846)
Total Segment Revenues	1,045,289	257,252	144,214	(245,846)	1,200,909
Segment Expenses					
Compensation and Benefits					
Cash Compensation and Benefits	142,500	61,193	23,374	72,689	299,756
Realized Performance Income Compensation	317,178	5,493	—	—	322,671
Unrealized Performance Income Compensation	(47,377)	(1,347)	—	—	(48,724)
Total Compensation and Benefits	412,301	65,339	23,374	72,689	573,703
Occupancy and Related Charges	27,212	7,252	1,901	11,121	47,486
Other Operating Expenses	95,166	28,102	10,870	32,404	166,542
Total Segment Expenses	534,679	100,693	36,145	116,214	787,731
Income (Loss) attributable to noncontrolling interests	—	—	2,002	—	2,002
Economic Net Income (Loss)	\$510,610	\$156,559	\$106,067	\$(362,060)	\$411,176
Total Assets	\$1,835,166	\$1,179,955	\$403,609	\$10,119,919	\$13,538,649

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

Fees and Other

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30, 2017	30, 2016	30, 2017	30, 2016
Fees and Other	\$692,877	\$687,056	\$2,340,617	\$1,426,618
Plus: Management fees relating to consolidated funds and placement fees	54,012	49,017	153,414	131,335
Less: Fee credits relating to consolidated funds	106	417	3,752	2,766
Plus: Net realized and unrealized carried interest - consolidated funds	22,341	5,956	43,782	15,581
Plus: Total investment income (loss)	50,095	330,497	684,722	(245,846)
Less: Revenue earned by oil & gas producing entities	12,441	16,191	47,096	47,977
Less: Reimbursable expenses	27,506	12,064	87,131	46,583
Less: Other	9,587	12,317	27,035	29,453
Total Segment Revenues	\$769,685	\$1,031,537	\$3,057,521	\$1,200,909

Expenses

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30, 2017	30, 2016	30, 2017	30, 2016
Total Expenses	\$530,247	\$511,117	\$1,699,989	\$1,242,658
Less: Equity based compensation	72,250	61,552	271,226	186,032
Less: Reimbursable expenses and placement fees	37,508	18,255	132,491	72,887
Less: Operating expenses relating to consolidated funds, CFEs and other entities	21,858	20,141	56,517	85,093
Less: Expenses incurred by oil & gas producing entities	10,725	17,782	34,826	56,000
Less: Intangible amortization	2,473	22,112	13,901	35,640
Less: Other	11,744	9,764	31,067	19,275
Total Segment Expenses	\$373,689	\$361,511	\$1,159,961	\$787,731

Net Income (Loss) Attributable to KKR & Co. L.P. Common Unitholders

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30, 2017	30, 2016	30, 2017	30, 2016
Net Income (Loss) Attributable to KKR & Co. L.P. Common Unitholders	\$153,563	\$352,152	\$818,552	\$116,103
Plus: Preferred Distributions	8,341	8,201	25,023	13,894
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings L.P.	115,434	284,834	637,146	86,659
Plus: Non-cash equity-based charges	78,728	61,552	277,704	186,032
Plus: Amortization of intangibles, placement fees and other, net ⁽¹⁾	20,464	(48,299)	57,825	(10,273)
Plus: Income tax (benefit)	18,420	10,826	77,500	18,761
Economic Net Income (Loss)	\$394,950	\$669,266	\$1,893,750	\$411,176

(1) Other primarily represents the statement of operations impact of the accounting convention differences for (i) direct interests in oil & natural gas properties outside of investment funds and (ii) certain interests in consolidated CLOs and other entities. On a segment basis, direct interests in oil & natural gas properties outside of investment funds are carried at fair value with changes in fair value recorded in Economic Net Income (Loss) and certain interests

in consolidated CLOs and other entities are carried at cost. See Note 2 "Summary of Significant Accounting Policies" for the GAAP accounting for these direct interests in oil and natural gas producing properties outside investment funds and interests in consolidated CLOs and other entities.

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The items that reconcile KKR's total reportable segments 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,	
	2017	2016
Total Assets	\$44,305,639	\$37,984,599
Less: Impact of consolidation of funds and other entities ⁽¹⁾	27,524,641	23,013,503
Less: Carry pool reclassification from liabilities	1,131,071	1,121,510
Less: Impact of KKR Management Holdings Corp.	301,928	310,937
Total Segment Assets	\$15,347,999	\$13,538,649

(1) Includes accounting basis difference for oil & natural gas properties of \$19,358 and \$5,966 as of September 30, 2017 and 2016, respectively.

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15. EQUITY

Reorganization of India Capital Markets and Corporate NBFC

On March 30, 2017, KKR reorganized KKR's Indian capital markets and credit asset management businesses, to create KKR India Financial Investments Pte. Ltd. or "KIFL". KKR owns 60% of KIFL. This reorganization transaction was accounted for as a transfer of interests under common control, and the difference between KKR's carrying value before and after the transaction was treated as a reallocation of equity interests, and no gain or loss was recognized in the consolidated financial statements. This reallocation amounted to an increase to KKR's equity of \$10.3 million and to KKR Holdings of \$7.9 million.

Unit Repurchase Program

Since October 27, 2015, KKR has authorized a total of \$750.0 million to repurchase its common units, of which \$459.0 million has been spent to repurchase 31.7 million common units as of October 23, 2017. Under this common unit repurchase program, common units 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 unit 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 to repurchase common units. The program does not require KKR to repurchase any specific number of common units, and the program may be suspended, extended, modified or discontinued at any time. See condensed consolidated statements of changes in equity for the amount of common units repurchased during the nine months ended September 30, 2016. There were no common units repurchased pursuant to this program during the nine months ended September 30, 2017.

Distribution Policy

Under KKR's distribution policy for its common units, KKR intends to make equal quarterly distributions to holders of its common units in an amount of \$0.17 per common unit per quarter. The declaration and payment of any distributions are subject to the discretion of the board of directors of the general partner of KKR and the terms of its limited partnership agreement. There can be no assurance that distributions will be made as intended or at all, that unitholders will receive sufficient distributions to satisfy payment of their tax liabilities as limited partners of KKR or that any particular distribution policy will be maintained.

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16. GOODWILL AND INTANGIBLE ASSETS

Goodwill

As of December 31, 2016, the carrying value of goodwill was \$89.0 million, which was allocated to Public Markets and Principal Activities in the amounts of \$59.0 million and \$30.0 million, respectively. As part of the PAAMCO Prisma transaction that occurred on June 1, 2017, goodwill of \$5.5 million was included in determining the gain on the contribution of Prisma to PAAMCO Prisma. In accordance with ASC 350, the amount of goodwill included in the gain calculation was based on the relative fair values of Prisma, which was integrated in Public Markets, and the remaining portion of Public Markets. Subsequent to this transaction the remaining carrying value of goodwill in Public Markets and Principal Activities is \$53.5 million and \$30.0 million, respectively, as of September 30, 2017.

Goodwill is recorded in Other Assets in the condensed consolidated statements of financial condition. All of the goodwill is currently expected to be deductible for tax purposes. See Note 8 "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities."

Intangible Assets

Intangible Assets, Net consists of the following:

	September 30, 2017	December 31, 2016
Finite-Lived Intangible Assets	\$ 74,524	\$ 251,768
Accumulated Amortization	(57,086)	(116,744)
Intangible Assets, Net	\$ 17,438	\$ 135,024

Changes in Intangible Assets, Net consists of the following:

	Nine Months Ended September 30, 2017
Balance, Beginning of Period	\$ 135,024
Amortization Expense	(13,891)
Foreign Exchange	1,938
Other ⁽¹⁾	(105,633)
Balance, End of Period	\$ 17,438

(1) Represents the removal of intangible assets in connection with the PAAMCO Prisma transaction.

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17. COMMITMENTS AND CONTINGENCIES

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, 2017. KKR is in compliance with its debt covenants in all material respects as of September 30, 2017.

Funding Commitments

As of September 30, 2017, KKR had unfunded commitments consisting of \$2,937.4 million to its active private equity and other investment vehicles. In addition to the uncalled commitments to KKR's investment funds, KKR has entered into contractual commitments with respect to (i) the purchase of investments and other assets in its Principal Activities segment, and (ii) underwriting transactions, debt financing, and syndications in KKR's Capital Markets segment. As of September 30, 2017, these commitments amounted to \$93.4 million and \$255.7 million, respectively. Whether these amounts are actually funded, in whole or in part, depends on the contractual terms of such commitments, including the satisfaction or waiver of any conditions to closing or funding. The unfunded commitments shown for KKR's Capital Markets segment are shown without reflecting arrangements that may reduce the actual amount of contractual commitments shown. Our capital market business entered into an arrangement that reduces our risk when underwriting certain debt transactions. In the case of purchases of investments or assets in our Principal Activities segment, the amount to be funded includes amounts that are intended to be syndicated to third parties, and the actual amounts to be funded may be less than shown.

Contingent Repayment Guarantees

The partnership documents governing KKR's carry-paying funds, including funds relating to private equity, infrastructure, energy, real estate, mezzanine, direct lending and special situations investments, generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation requiring the general partner to return amounts to the fund for distribution to the fund investors at the end of the life of the fund. Under a clawback obligation, upon the liquidation of a fund, the general partner is required to return, typically on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, including the effects of any performance thresholds. Excluding carried interest received by the general partners of funds that were not contributed to KKR in the acquisition of the assets and liabilities of KKR & Co. (Guernsey) L.P. (formerly known as KKR Private Equity Investors, L.P.) on October 1, 2009 (the "KPE Transaction"), as of September 30, 2017, \$47.3 million of carried interest was subject to this clawback obligation, assuming that all applicable carry paying funds were liquidated at their September 30, 2017 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been \$1,990.7 million. Carried interest is recognized in the statement of operations based on the contractual conditions set forth in the agreements governing the fund as if the fund were terminated and liquidated at the reporting date and the fund's investments were realized at the then estimated fair values. Amounts earned pursuant to carried interest are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment amounts earned decrease or turn negative in subsequent periods, recognized carried interest will be reversed and to the extent that the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, a clawback obligation would be recorded. For funds that are consolidated, this clawback obligation, if any, is reflected as an increase in noncontrolling interests in the consolidated statements of financial condition. For funds that are not consolidated, this clawback obligation, if any, is reflected as a reduction of KKR's investment balance as this is where carried interest is initially recorded.

Prior to the KPE Transaction in 2009, certain principals who received carried interest distributions with respect to certain private equity funds contributed to KKR had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of such private equity funds to repay amounts to fund investors pursuant to the general partners' clawback obligations. The terms of the KPE Transaction require that principals remain responsible for any clawback obligations relating to carry distributions received prior to the KPE Transaction, up to a maximum of \$223.6 million. Through investment realizations, the principals' potential exposure has been reduced to \$72.2 million as of September 30, 2017. Using valuations as of September 30, 2017, \$19.7 million would be due with respect to the clawback obligation required to be funded by principals. Carry distributions arising subsequent to the KPE Transaction may give rise to clawback obligations that may be allocated generally to KKR and persons who participate in the carry pool. In addition, guarantees of or similar arrangements relating to clawback obligations in favor of third party investors in an individual investment partnership by entities KKR owns may limit distributions of carried interest more generally.

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Indemnifications and Other Guarantees

KKR may incur contingent liabilities for claims that may be made against it in the future. KKR enters into contracts that contain a variety of representations, warranties and covenants, including indemnifications. For example, certain of KKR's investment funds and KFN have provided certain indemnities relating to environmental and other matters and have provided nonrecourse carve-out guarantees for fraud, willful misconduct and other customary wrongful acts, each in connection with the financing of certain real estate investments that KKR has made. In addition, KKR has also provided credit support to certain of its subsidiaries' obligations in connection with a limited number of investment vehicles that KKR manages. For example, KKR has guaranteed the obligations of a general partner to post collateral on behalf of its investment vehicle in connection with such vehicle's derivative transactions, and KKR has also agreed to be liable for certain investment losses and/or for providing liquidity in the events specified in the governing documents of another investment vehicle. KKR has also provided credit support regarding repayment obligations to third party lenders to certain of its employees, excluding its executive officers, in connection with their personal investments in KKR investment funds and to a strategic partner regarding the ownership of its business. KKR also may become liable for certain fees payable to sellers of businesses or assets if a transaction does not close, subject to certain conditions, if any, specified in the acquisition agreements for such businesses or assets. KKR's maximum exposure under these arrangements is currently unknown and KKR's liabilities for these matters would require a claim to be made against KKR in the future.

Litigation

From time to time, KKR is involved in various legal proceedings, lawsuits and claims incidental to the conduct of KKR's business. KKR's business is also subject to extensive regulation, which may result in regulatory proceedings against it.

KKR currently is and expects to continue to become, from time to time, subject to examinations, inquiries and investigations by various U.S. and non U.S. governmental and regulatory agencies, including but not limited to the SEC, Department of Justice, state attorney generals, Financial Industry Regulatory Authority, or FINRA, and the U.K. Financial Conduct Authority. Such examinations, inquiries and investigations may result in the commencement of civil, criminal or administrative proceedings against KKR or its personnel.

Moreover, in the ordinary course of business, KKR is and can be both the defendant and the plaintiff in numerous lawsuits with respect to acquisitions, bankruptcy, insolvency and other types of proceedings. Such lawsuits may involve claims that adversely affect the value of certain investments owned by KKR's funds.

KKR establishes an accrued liability for legal proceedings only when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. No loss contingency is recorded for matters where such losses are either not probable or reasonably estimable (or both) at the time of determination. Such matters may be subject to many uncertainties, including among others (i) the proceedings may be in early stages; (ii) damages sought may be unspecified, unsupported, unexplained or uncertain; (iii) discovery may not have been started or is incomplete; (iv) there may be uncertainty as to the outcome of pending appeals or motions; (v) there may be significant factual issues to be resolved; or (vi) there may be novel legal issues or unsettled legal theories to be presented or a large number of parties. Consequently, management is unable to estimate a range of potential loss, if any, related to these matters. In addition, loss contingencies may be, in part or in whole, subject to insurance or other payments such as contributions and/or indemnity, which may reduce any ultimate loss.

It is not possible to predict the ultimate outcome of all pending legal proceedings, and some of the matters discussed above seek or may seek potentially large and/or indeterminate amounts. As of such date, based on information known

by management, management has not concluded that the final resolutions of the matters above will have a material effect upon the financial statements. However, given the potentially large and/or indeterminate amounts sought or may be sought in certain of these matters and the inherent unpredictability of investigations and litigations, it is possible that an adverse outcome in certain matters could, from time to time, have a material effect on KKR's financial results in any particular period.

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18. REGULATORY CAPITAL REQUIREMENTS

KKR has registered broker-dealer subsidiaries which are subject to the minimum net capital requirements of the SEC and the FINRA. Additionally, KKR entities based in London and Dublin are subject to the regulatory capital requirements of the U.K. Financial Conduct Authority and the Central Bank of Ireland, respectively. In addition, KKR has an entity based in Hong Kong which is subject to the capital requirements of the Hong Kong Securities and Futures Ordinance, an entity based in Tokyo subject to the capital requirements of Financial Services Authority of Japan, and two entities based in Mumbai which are subject to capital requirements of the Reserve Bank of India and the Securities and Exchange Board of India. All of these entities have continuously operated in excess of their respective minimum regulatory capital requirements.

The regulatory capital requirements referred to above may restrict KKR's ability to withdraw capital from its registered broker-dealer entities. At September 30, 2017, approximately \$141.6 million of cash at KKR's registered broker-dealer entities may be restricted as to the payment of cash dividends and advances to KKR.

19. SUBSEQUENT EVENTS

Common Unit Distribution

A distribution of \$0.17 per KKR & Co. L.P. common unit was announced on October 26, 2017, and will be paid on November 21, 2017 to common unitholders of record as of the close of business on November 6, 2017. KKR Holdings will receive its pro rata share of the distribution from the KKR Group Partnerships.

Preferred Unit Distributions

A distribution of \$0.421875 per Series A Preferred Unit has been declared as announced on October 26, 2017 and set aside for payment on December 15, 2017 to holders of record of Series A Preferred Units as of the close of business on December 1, 2017.

A distribution of \$0.406250 per Series B Preferred Unit has been declared as announced on October 26, 2017 and set aside for payment on December 15, 2017 to holders of record of Series B Preferred Units as of the close of business on December 1, 2017.

Investment in Marshall Wace

Due to the exercise of one of the options agreed to between Marshall Wace and KKR, KKR expects to acquire an additional 5.0% interest in Marshall Wace in the fourth quarter of 2017. The acquisition is expected to be completed with a combination of cash and common units.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of KKR & Co. L.P., together with its consolidated subsidiaries, and the related notes included elsewhere in this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the Securities and Exchange Commission on February 24, 2017 (our "Annual Report"), including the audited consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein. The historical condensed consolidated financial data discussed below reflects the historical results and financial position of KKR. In addition, this discussion and analysis contains forward looking statements and involves numerous risks and uncertainties, including those described under "Cautionary Note Regarding Forward-looking Statements" and "Risk Factors" in this report, our Annual Report and other quarterly reports. Actual results may differ materially from those contained in any forward looking statements.

Overview

We are a leading global investment firm that manages multiple alternative asset classes including private equity, energy, infrastructure, real estate, growth equity, credit and, through our strategic manager partnerships, hedge funds. We aim to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation in our portfolio companies. We invest our own capital alongside the capital we manage for fund investors and provide financing solutions and investment opportunities through our capital markets business.

Our business offers a broad range of investment management services to our fund investors and provides capital markets services to our firm, our portfolio companies and third parties. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 310 private equity investments in portfolio companies with a total transaction value in excess of \$555 billion as of September 30, 2017. We have grown our firm by expanding our geographical presence and building businesses in areas, such as leveraged credit, alternative credit, hedge funds, capital markets, infrastructure, energy, real estate and growth equity. Our balance sheet has provided a significant source of capital in the growth and expansion of our business, and has allowed us to further align our interests with those of our fund investors. These efforts build on our core principles and industry expertise, allowing us to leverage the intellectual capital and synergies in our businesses, and to capitalize on a broader range of the opportunities we source. Additionally, we have increased our focus on meeting the needs of our existing fund investors and in developing relationships with new investors in our funds.

We conduct our business with offices throughout the world, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors in our funds, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

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

Our investment teams have deep industry knowledge and are supported by a substantial and diversified capital base, an integrated global investment platform, the expertise of operating consultants, senior advisors and other advisors and a worldwide network of business relationships that provide a significant source of investment opportunities, specialized knowledge during due diligence and substantial resources for creating and realizing value for stakeholders.

These teams invest capital, a substantial portion of which is of a long duration and not subject to redemption. As of September 30, 2017, approximately 78% of our fee paying assets under management are not subject to redemption for at least 8 years from inception, providing us with significant flexibility to grow investments and select exit opportunities. We believe that these aspects of our business will help us continue to expand and grow our business and deliver strong investment performance in a variety of economic and financial conditions.

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Business Segments

Private Markets

Through our Private Markets segment, we manage and sponsor private equity funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. Our private equity investment strategies include traditional private equity, growth equity and core private equity. We also manage and sponsor investment funds and co-investment vehicles that invest capital in real assets, such as infrastructure, energy and real estate. These funds, vehicles and accounts are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC registered investment adviser. As of September 30, 2017, the segment had \$87.6 billion of AUM and FPAUM of \$61.7 billion, consisting of \$47.5 billion in private equity and \$14.2 billion in real assets (including infrastructure, energy and real estate) and related strategies.

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The table below presents information as of September 30, 2017 relating to our current private equity, growth equity and real asset funds and other investment vehicles for which we have the ability to earn carried interest. This data does not reflect acquisitions or disposals of investments, changes in investment values or distributions occurring after September 30, 2017.

	Investment Period ⁽¹⁾		Amount (\$ in millions)		Percentage Committed by General Partner	Invested	Realized	Remaining Cost ⁽³⁾	Remaining Fair Value
	Start Date	End Date	Commitment	Uncalled Commitment ⁽²⁾					
Private Markets									
Private Equity and Growth Equity									
Asian Fund III ⁽⁴⁾	4/2017	4/2023	\$9,000.0	\$ 9,000.0	5.6%	\$—	\$—	\$—	\$—
Americas Fund XII ⁽⁴⁾	1/2017	1/2023	13,500.0	13,500.0	7.2%	—	—	—	5.6
Health Care Strategic Growth Fund ⁽⁴⁾	12/2016	12/2021	1,214.9	1,214.9	12.3%	—	—	—	—
Next Generation Technology Growth Fund ⁽⁴⁾	3/2016	3/2021	658.9	431.3	22.5%	227.6	—	227.6	325.1
European Fund IV ⁽⁴⁾	12/2014	12/2020	3,537.4	1,507.5	5.6%	2,059.6	29.2	2,038.7	2,629.8
Asian Fund II ⁽⁴⁾	4/2013	4/2017	5,825.0	1,012.7	1.3%	5,782.0	1,469.1	4,749.0	7,070.8
North America Fund XI ⁽⁴⁾	9/2012	1/2017	8,718.4	874.2	2.9%	9,268.2	4,344.4	6,743.5	11,525.2
China Growth Fund	11/2010	11/2016	1,010.0	—	1.0%	1,010.0	565.0	665.3	801.4
E2 Investors (Annex Fund)	8/2009	11/2013	195.8	—	4.9%	195.8	195.7	18.1	1.7
European Fund III	3/2008	3/2014	6,165.5	838.2	4.6%	5,327.3	6,989.1	2,029.3	3,427.6
Asian Fund 2006 Fund	7/2007	4/2013	3,983.3	—	2.5%	3,945.9	7,681.6	813.8	917.2
European Fund II	9/2006	9/2012	17,642.2	337.7	2.1%	17,304.5	26,586.4	4,957.8	6,960.9
Millennium Fund	11/2005	10/2008	5,750.8	—	2.1%	5,750.8	8,467.3	—	58.4
Total Private Equity and Growth Equity	12/2002	12/2008	6,000.0	—	2.5%	6,000.0	13,305.4	444.9	610.6
			83,202.2	28,716.5		56,871.7	69,633.2	22,688.0	34,334.3
Co-Investment Vehicles and Other ⁽⁴⁾	Various	Various	6,674.1	1,830.0	Various	5,042.9	2,712.0	3,686.4	4,848.5

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Total Private Equity and Growth Equity			89,876.3	30,546.5		61,914.6	72,345.2	26,374.4	39,182.8
Real Assets									
Energy Income and Growth Fund ⁽⁴⁾	9/2013	9/2018	1,974.2	667.7	12.9%	1,336.5	284.1	1,072.6	1,132.7
Natural Resources Fund	Various	Various	887.4	2.8	Various	884.6	113.4	794.9	151.9
Global Energy Opportunities ⁽⁴⁾	Various	Various	979.2	613.2	Various	405.5	59.0	291.0	315.0
Global Infrastructure Investors ⁽⁴⁾	9/2011	10/2014	1,040.2	59.9	4.8%	1,011.3	844.8	604.2	775.9
Global Infrastructure Investors II ⁽⁴⁾	10/2014	10/2020	3,045.4	1,820.2	4.1%	1,412.3	192.9	1,221.0	1,532.5
Real Estate Partners Americas ⁽⁴⁾	5/2013	5/2017	1,229.1	363.3	16.3%	993.7	776.0	562.2	631.9
Real Estate Partners Americas II ⁽⁴⁾	5/2017	(5)	782.7	782.7	19.2%	—	—	—	—
Real Estate Partners Europe ⁽⁴⁾	9/2015	6/2020	721.2	594.7	9.2%	132.6	12.0	125.4	158.1
Real Estate Credit Opportunity Partners ⁽⁴⁾	2/2017	2/2019	1,090.0	918.0	4.6%	172.0	—	172.0	184.4
Co-Investment Vehicles and Other	Various	Various	1,401.9	11.8	Various	1,390.1	511.9	1,387.7	1,799.8
Real Assets			\$13,151.3	\$5,834.3		\$7,738.6	\$2,794.1	\$6,231.0	\$6,682.2
Unallocated Commitments			3,041.1	3,041.1	Various	—	—	—	—
Private Markets Total			\$106,068.7	\$39,421.9		\$69,653.2	\$75,139.3	\$32,605.4	\$45,865.0

The start date represents the date on which the general partner of the applicable fund commenced investment of the fund's capital or the date of the first closing. The end date represents the earlier of (i) the date on which the general (1) partner of the applicable fund was or will be required by the fund's governing agreement to cease making investments on behalf of the fund, unless extended by a vote of the fund investors or (ii) the date on which the last investment was made.

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(2) The commitment represents the aggregate capital commitments to the fund, including capital commitments by third-party fund investors and the general partner. Foreign currency commitments have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate that prevailed on September 30, 2017, in the case of uncalled commitments.

(3) The remaining cost represents the initial investment of the general partner and limited partners, with the limited partners' investment reduced for any return of capital and realized gains from which the general partner did not receive a carried interest.

(4) The "Invested" and "Realized" columns include the amounts of any realized investments that restored the unused capital commitments of the fund investors, if any.

(5) Three years from final closing date.

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The tables below present information as of September 30, 2017 relating to the historical performance of certain of our Private Markets investment vehicles since inception, which we believe illustrates the benefits of our investment approach. The information presented under Total Investments includes all of the investments made by the specified investment vehicle, while the information presented under Realized/Partially Realized Investments includes only those investments that have been disposed of or have otherwise generated disposition proceeds or current income including dividends that have been distributed by the relevant fund. This data does not reflect additional capital raised since September 30, 2017 or acquisitions or disposals of investments, changes in investment values or distributions occurring after that date. Past performance is no guarantee of future results.

Private Markets Investment Funds	Amount		Fair Value of Investments			Gross IRR ⁽⁵⁾	Net IRR ⁽⁵⁾	Multiple of Invested Capital ⁽⁵⁾
	Commitment ⁽⁵⁾	Invested ⁽⁵⁾	Realized ⁽⁵⁾	Unrealized	Total Value			
(\$ in millions)								
Total Investments								
Legacy Funds ⁽¹⁾								
1976 Fund	\$31.4	\$31.4	\$537.2	\$—	\$537.2	39.5 %	35.5 %	17.1
1980 Fund	356.8	356.8	1,827.8	—	1,827.8	29.0 %	25.8 %	5.1
1982 Fund	327.6	327.6	1,290.7	—	1,290.7	48.1 %	39.2 %	3.9
1984 Fund	1,000.0	1,000.0	5,963.5	—	5,963.5	34.5 %	28.9 %	6.0
1986 Fund	671.8	671.8	9,080.7	—	9,080.7	34.4 %	28.9 %	13.5
1987 Fund	6,129.6	6,129.6	14,949.2	—	14,949.2	12.1 %	8.9 %	2.4
1993 Fund	1,945.7	1,945.7	4,143.3	—	4,143.3	23.6 %	16.8 %	2.1
1996 Fund	6,011.6	6,011.6	12,476.9	—	12,476.9	18.0 %	13.3 %	2.1
Subtotal - Legacy Funds	16,474.5	16,474.5	50,269.3	—	50,269.3	26.1 %	19.9 %	3.1
Included Funds								
European Fund (1999) ⁽²⁾	3,085.4	3,085.4	8,757.7	—	8,757.7	26.9 %	20.2 %	2.8
Millennium Fund (2002)	6,000.0	6,000.0	13,305.4	610.6	13,916.0	21.9 %	16.0 %	2.3
European Fund II (2005) ⁽²⁾	5,750.8	5,750.8	8,467.3	58.4	8,525.7	6.1 %	4.5 %	1.5
2006 Fund (2006)	17,642.2	17,304.5	26,586.4	6,960.9	33,547.3	11.5 %	8.9 %	1.9
Asian Fund (2007)	3,983.3	3,945.9	7,681.6	917.2	8,598.8	19.0 %	13.7 %	2.2
European Fund III (2008) ⁽²⁾	6,165.5	5,327.3	6,989.1	3,427.6	10,416.7	16.9 %	11.6 %	2.0
E2 Investors (Annex Fund) (2009) ⁽²⁾	195.8	195.8	195.7	1.7	197.4	0.2 %	(0.5) %	1.0
China Growth Fund (2010)	1,010.0	1,010.0	565.0	801.4	1,366.4	11.5 %	5.9 %	1.4
Natural Resources Fund (2010)	887.4	884.6	113.4	151.9	265.3	(31.2) %	(33.7) %	0.3
Global Infrastructure Investors (2011) ⁽²⁾	1,040.2	1,011.3	844.8	775.9	1,620.7	14.5 %	12.5 %	1.6
North America Fund XI (2012)	8,718.4	9,268.2	4,344.4	11,525.2	15,869.6	26.5 %	20.7 %	1.7
Asian Fund II (2013)	5,825.0	5,782.0	1,469.1	7,070.8	8,539.9	25.9 %	18.7 %	1.5
Real Estate Partners Americas (2013)	1,229.1	993.7	776.0	631.9	1,407.9	21.1 %	15.7 %	1.4
Energy Income and Growth Fund (2013)	1,974.2	1,336.5	284.1	1,132.7	1,416.8	3.0 %	0.4 %	1.1
Global Infrastructure Investors II (2014) ⁽²⁾	3,045.4	1,412.3	192.9	1,532.5	1,725.4	18.5 %	14.0 %	1.2
European Fund IV (2015) ⁽²⁾	3,537.4	2,059.6	29.2	2,629.8	2,659.0	26.5 %	19.3 %	1.3
Real Estate Partners Europe (2015) ⁽²⁾⁽³⁾	721.2	132.6	12.0	158.1	170.1	—	—	—

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Next Generation Technology Growth Fund (2016) ⁽³⁾	658.9	227.6	—	325.1	325.1	—	—	—
Health Care Strategic Growth Fund (2016) ⁽³⁾	1,214.9	—	—	—	—	—	—	—
Americas Fund XII (2017) ⁽³⁾	13,500.0	—	—	5.6	5.6	—	—	—
Real Estate Credit Opportunity Partners (2017) ⁽³⁾	1,090.0	172.0	—	184.4	184.4	—	—	—
Asian Fund III (2017) ⁽³⁾	9,000.0	—	—	—	—	—	—	—
Real Estate Partners Americas II (2017) ⁽³⁾	782.7	—	—	—	—	—	—	—
Subtotal - Included Funds	97,057.8	65,900.1	80,614.1	38,901.7	119,515.8	15.7	% 11.5	% 1.8
All Funds	\$113,532.3	\$82,374.6	\$130,883.4	\$38,901.7	\$169,785.1	25.6	% 18.8	% 2.1

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Private Markets Investment Funds	Amount		Fair Value of Investments			Multiple of Invested Capital (5)
	Commitment (5)	Invested (5)	Realized (5)	Unrealized	Total Value	
(\$ in millions)						
Realized/Partially Realized Investments (4)						
Legacy Funds (1)						
1976 Fund	\$31.4	\$31.4	\$ 537.2	\$—	\$537.2	17.1
1980 Fund	356.8	356.8	1,827.8	—	1,827.8	5.1
1982 Fund	327.6	327.6	1,290.7	—	1,290.7	3.9
1984 Fund	1,000.0	1,000.0	5,963.5	—	5,963.5	6.0
1986 Fund	671.8	671.8	9,080.7	—	9,080.7	13.5
1987 Fund	6,129.6	6,129.6	14,949.2	—	14,949.2	2.4
1993 Fund	1,945.7	1,945.7	4,143.3	—	4,143.3	2.1
1996 Fund	6,011.6	6,011.6	12,476.9	—	12,476.9	2.1
Subtotal - Legacy Funds	16,474.5	16,474.5	50,269.3	—	50,269.3	3.1
Included Funds						
European Fund (1999) (2)	3,085.4	3,085.4	8,757.7	—	8,757.7	2.8
Millennium Fund (2002)	6,000.0	5,599.4	13,305.4	610.6	13,916.0	2.5
European Fund II (2005) (2)	5,750.8	5,245.4	8,467.3	58.4	8,525.7	1.6
2006 Fund (2006)	17,642.2	15,439.7	26,586.4	5,159.9	31,746.3	2.1
Asian Fund (2007)	3,983.3	3,118.2	7,681.6	344.8	8,026.4	2.6
European Fund III (2008) (2)	6,165.5	3,897.0	6,989.1	1,933.8	8,922.9	2.3
E2 Investors (Annex Fund) (2009) (2)	195.8	94.8	195.7	—	195.7	2.1
China Growth Fund (2010)	1,010.0	427.5	565.0	179.5	744.5	1.7
Natural Resources Fund (2010)	887.4	886.9	113.4	151.9	265.3	0.3
Global Infrastructure Investors (2011) (2)	1,040.2	1,011.2	844.8	775.9	1,620.7	1.6
North America Fund XI (2012)	8,718.4	5,164.7	4,344.4	5,905.4	10,249.8	2.0
Asian Fund II (2013)	5,825.0	2,738.7	1,469.1	3,940.7	5,409.8	2.0
Real Estate Partners Americas (2013)	1,229.1	800.9	776.0	440.1	1,216.1	1.5
Energy Income and Growth Fund (2013)	1,974.2	1,336.5	284.1	1,132.7	1,416.8	1.1
Global Infrastructure Investors II (2014) (2)	3,045.4	599.6	192.9	538.1	731.0	1.2
European Fund IV (2015) (2)	3,537.4	—	—	—	—	—
Real Estate Partners Europe (2015) (2) (3) (4)	721.2	—	—	—	—	—
Next Generation Technology Growth Fund (2016) (3) (4)	658.9	—	—	—	—	—
Health Care Strategic Growth Fund (2016) (3) (4)	1,214.9	—	—	—	—	—
Americas Fund XII (2017) (3) (4)	13,500.0	—	—	—	—	—
Real Estate Credit Opportunity Partners (2017) (3) (4)	1,090.0	—	—	—	—	—
Asian Fund III (2017) (3) (4)	9,000.0	—	—	—	—	—
Real Estate Partners Americas II (2017) (3) (4)	782.7	—	—	—	—	—
Subtotal - Included Funds	97,057.8	49,445.9	80,572.9	21,171.8	101,744.7	2.1
All Realized/Partially Realized Investments	\$113,532.3	\$65,920.4	\$130,842.2	\$21,171.8	\$152,014.0	2.3

(1) These funds were not contributed to KKR as part of the KPE Transaction.

(2)

The capital commitments of the European Fund, European Fund II, European Fund III, E2 Investors (Annex Fund), European Fund IV, Global Infrastructure Investors, Global Infrastructure Investors II and Real Estate Partners Europe include euro-denominated commitments of €196.5 million, €2,597.5 million, €2,882.8 million, €55.5 million, €1,626.1 million, €30.0 million, €243.8 million and €276.6 million, respectively. Such amounts have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate prevailing on September 30, 2017 in the case of unfunded commitments.

The gross IRR, net IRR and multiple of invested capital are calculated for our investment funds that made their first investment at least 24 months prior to September 30, 2017. None of the Real Estate Partners Europe, Next Generation Technology Growth Fund, Health Care Strategic Growth Fund, Americas Fund XII, Real Estate Credit Opportunity Partners, Asian Fund III or Real Estate Partners Americas II has invested for at least 24 months as of September 30, 2017. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to those funds.

An investment is considered partially realized when it has been disposed of or has otherwise generated disposition proceeds or current income that has been distributed by the relevant fund. In periods prior to the three months ended September 30, 2015, realized proceeds excluded current income such as dividends and interest. Realizations have not been shown for those investment funds that have either made their first investment more recently than 24 months prior to September 30, 2017 or have otherwise not had any realizations. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to the investments of those funds.

IRR measures the aggregate annual compounded returns generated by a fund's investments over a holding period. Net IRRs are calculated after giving effect to the allocation of realized and unrealized carried interest and the payment of any applicable management fees. Gross IRRs are calculated before giving effect to the allocation of carried interest and the payment of any applicable management fees.

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The multiples of invested capital measure the aggregate value generated by a fund's investments in absolute terms. Each multiple of invested capital is calculated by adding together the total realized and unrealized values of a fund's investments and dividing by the total amount of capital invested by the fund. Such amounts do not give effect to the allocation of any realized and unrealized returns on a fund's investments to the fund's general partner pursuant to a carried interest or the payment of any applicable management fees.

KKR Private Markets funds may utilize third party financing facilities to provide liquidity to such funds. In such event IRRs are calculated from the time capital contributions are due from fund investors to the time fund investors receive a related distribution from the fund, and the use of such financing facilities generally decreases the amount of invested capital that would otherwise be used to calculate IRRs and multiples of invested capital, which tends to increase IRRs and multiples when fair value grows over time and decrease IRRs and multiples when fair value decreases over time.

KKR Private Markets funds also generally provide in certain circumstances, which vary depending on the relevant fund documents, for a portion of capital returned to investors to be restored to unused commitments as recycled capital. For KKR's Private Markets funds that have a preferred return, we take into account recycled capital in the calculation of IRRs and multiples of invested capital because the calculation of the preferred return includes the effect of recycled capital. For KKR's Private Markets funds that do not have a preferred return, we do not take recycled capital into account in the calculation of IRRs and multiples of invested capital. The inclusion of recycled capital generally causes invested and realized amounts to be higher and IRRs and multiples of invested capital to be lower than had recycled capital not been included. The inclusion of recycled capital would reduce the composite net IRR of all Included Funds by 0.1% and the composite net IRR of all Legacy Funds by 0.5%, and would reduce the composite multiple of invested capital of Included Funds by less than 0.1 and the composite multiple of invested capital of Legacy Funds by 0.4.

Public Markets

We operate and report our combined credit and hedge funds businesses through the Public Markets segment. Our credit business advises funds, collateralized loan obligation vehicles, or CLOs, separately managed accounts, and investment companies registered under the Investment Company Act of 1940, or the Investment Company Act, including business development companies or BDCs, and alternative investments funds or AIFs, which invest capital in (i) leveraged credit strategies, including leveraged loans, high yield bonds and opportunistic credit, and (ii) alternative credit strategies, including special situations and private credit strategies such as private credit opportunities, direct lending and revolving credit investment strategies. The funds, accounts, registered investment companies, BDCs and CLOs in our leveraged credit and alternative credit strategies, including special situations and private credit strategies are managed by KKR Credit Advisors (US) LLC, which is an SEC registered investment adviser, KKR Credit Advisors (Ireland) Unlimited Company, regulated by the Central Bank of Ireland, and KKR Credit Advisors (UK) LLP, regulated by the United Kingdom Financial Conduct Authority, or FCA. Our Public Markets segment also includes our hedge funds business which consists of strategic manager partnerships with third party hedge fund managers in which KKR owns minority stakes. Our hedge fund strategic manager partners offer a variety of investment strategies, including hedge fund-of-funds, equity hedge funds, credit hedge funds, and funds focused on natural catastrophe and weather risks.

As of September 30, 2017, this segment had \$65.7 billion of AUM, comprised of \$21.5 billion of assets managed in our leveraged credit strategies, \$7.6 billion of assets managed in our special situations strategy, \$11.2 billion of assets managed in our private credit strategies, \$24.4 billion of assets managed through our hedge fund business and \$1.0 billion of assets managed in other strategies. Our private credit strategies include \$3.2 billion of assets managed in our private opportunistic credit strategy, \$7.0 billion of assets managed in our direct lending strategy and \$1.0 billion of assets managed in our revolving credit strategy.

On June 1, 2017, KKR completed its previously announced transaction to combine Pacific Alternative Asset Management Company, LLC, or PAAMCO, with Prisma Capital Partners LP, formerly known as KKR Prisma, to create PAAMCO Prisma Holdings LLC. PAAMCO Prisma is a leading liquid alternatives investment firm, which

operates independently of KKR. KKR owns 39.9% of PAAMCO Prisma and receives certain other payments from PAAMCO Prisma.

Credit

Performance

We generally review our performance in our credit business by investment strategy. Our leveraged credit strategies principally invest in leveraged loans and high yield bonds, or a combination of both. In certain cases, these strategies have meaningful track records and may be compared to widely-known indices. The following table presents information regarding larger leveraged credit strategies managed by KKR from inception to September 30, 2017. Past performance is no guarantee of future results.

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Leveraged Credit Strategies: Inception-to-Date Annualized Gross Performance vs. Benchmark by Strategy

(\$ in millions)	Inception Date	Gross Returns	Net Returns	Benchmark (1)	Benchmark Gross Returns
Bank Loans Plus High Yield	Jul 2008	8.04 %	7.40 %	65% S&P/ LSTA, 35% BoAML HY Master II Index ⁽²⁾	6.47 %
Opportunistic Credit ⁽³⁾	May 2008	13.18 %	11.14 %	BoAML HY Master II Index ⁽³⁾	6.79 %
Bank Loans	Apr 2011	5.49 %	4.87 %	S&P/ LSTA Loan Index ⁽⁴⁾	4.24 %
High Yield	Apr 2011	7.28 %	6.69 %	BoAML HY Master II Index ⁽⁵⁾	6.80 %
Bank Loans Conservative	Apr 2011	4.80 %	4.19 %	S&P/ LSTA BB-B Loan Index ⁽⁶⁾	4.24 %
European Leveraged Loans ⁽⁷⁾	Sep 2009	5.60 %	5.07 %	CS Inst West European Leveraged Loan Index ⁽⁸⁾	4.88 %
High Yield Conservative	Apr 2011	6.65 %	6.08 %	BoAML HY BB-B Constrained	6.69 %
European Credit Opportunities ⁽⁷⁾	Sept 2007	5.80 %	4.89 %	S&P LSTA European Leveraged Loans (All Loans)	4.44 %

The Benchmarks referred to herein include the S&P/LSTA Leveraged Loan Index (the "S&P/LSTA Loan Index"), S&P/LSTA U.S. B/BB Ratings Loan Index (the "S&P/ LSTA BB-B Loan Index"), the Bank of America Merrill Lynch High Yield Master II Index (the "BoAML HY Master II Index"), the BofA Merrill Lynch BB-B US High Yield Index (the "BoAML HY BB-B Constrained"), the Credit Suisse Institutional Western European Leveraged Loan Index (the "CS Inst European Leveraged Loan Index"), and S&P LSTA European Leveraged Loans (All Loans). The S&P/LSTA Loan Index is a daily tradable index for the U.S. loan market that seeks to mirror the market-weighted performance of the largest institutional loans that meet certain criteria. The S&P/ LSTA BB-B Loan Index is comprised of loans in the S&P/LSTA Loan Index, whose rating is BB+, BB, BB-, B+, B or B-. The

(1) BoAML HY Master II Index is an index for high yield corporate bonds. It is designed to measure the broad high yield market, including lower-rated securities. The BOAML HY BB-B Constrained is a subset of the BoAML HY Master II Index including all securities rated BB1 through B3, inclusive. The CS Inst European Leveraged Loan Index contains only institutional loan facilities priced above 90, excluding TL and TLa facilities and loans rated CC, C or are in default. The S&P European Leveraged Loan Index reflects the market-weighted performance of institutional leveraged loan portfolios investing in European credits. While the returns of these strategies reflect the reinvestment of income and dividends, none of the indices presented in the chart above reflect such reinvestment, which has the effect of increasing the reported relative performance of these strategies as compared to the indices. Furthermore, these indices are not subject to management fees, incentive allocations or expenses.

Performance is based on a blended composite of Bank Loans Plus High Yield strategy accounts. The Benchmark

(2) used for purposes of comparison for the Bank Loans Plus High Yield strategy is based on 65% S&P/LSTA Loan Index and 35% BoAML HY Master II Index.

The Opportunistic Credit strategy invests in high yield securities and corporate loans with no preset allocation. The Benchmark used for purposes of comparison for the Opportunistic Credit strategy presented herein is based on the BoAML HY Master II Index. Funds within this strategy may utilize third party

(3) financing facilities to enhance investment returns. In cases where financing facilities are used, the amounts drawn on the facility are deducted from the assets of the fund in the calculation of net asset value, which tends to increase returns when net asset value grows over time and decrease returns when net asset value decreases over time.

(4) Performance is based on a composite of portfolios that primarily invest in leveraged loans. The Benchmark used for purposes of comparison for the Bank Loans strategy is based on the S&P/LSTA Loan Index.

(5) Performance is based on a composite of portfolios that primarily invest in high yield securities. The Benchmark used for purposes of comparison for the High Yield strategy is based on the BoAML HY Master II Index.

(6) Performance is based on a composite of portfolios that primarily invest in leveraged loans rated B-/Baa3 or higher. The Benchmark used for purposes of comparison for the Bank Loans strategy is based on the S&P/LSTA BB/B

Loan Index.

(7) The returns presented are calculated based on local currency.

Performance is based on a composite of portfolios that primarily invest in higher quality leveraged loans. The

(8) Benchmark used for purposes of comparison for the European Senior Loans strategy is based on the CS Inst West European Leveraged Loan Index.

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Our alternative credit strategies primarily invest in more illiquid instruments through private investment funds, BDCs and separately managed accounts. The following table presents information regarding our Public Markets alternative credit commingled funds where investors are subject to capital commitments from inception to September 30, 2017. Some of these funds have been investing for less than 24 months, and thus their performance is less meaningful and not included below. Past performance is no guarantee of future results.

Credit Strategies: Fund Performance

Public Markets Investment Funds	Inception Date	Amount		Fair Value of Investments			Gross IRR (2)	Net IRR (2)	Multiple of Invested Capital (3)
		Commitment	Invested (1)	Realized (1)	Unrealized	Total Value			
(\$ in Millions)									
Special Situations Fund	Dec-12	\$2,274.3	\$2,231.6	\$690.1	\$2,024.7	\$2,714.8	7.0 %	4.9 %	1.2
Special Situations Fund II	Dec-14	3,285.8	1,347.6	—	1,320.1	1,320.1	(1.2)%	(4.2)%	1.0
Mezzanine Partners Private Credit	Mar-10	1,022.8	921.9	812.5	488.6	1,301.1	12.8 %	8.0 %	1.4
Opportunities Partners II	Dec-15	732.9	105.8	—	137.4	137.4	N/A	N/A	N/A
Lending Partners	Dec-11	460.2	405.3	321.0	195.7	516.7	7.7 %	6.3 %	1.3
Lending Partners II	Jun-14	1,335.9	1,136.7	258.9	1,158.6	1,417.5	15.2 %	12.8 %	1.2
Lending Partners III	Apr-17	795.8	35.8	—	41.9	41.9	N/A	N/A	N/A
Lending Partners Europe	Mar-15	847.6	324.1	42.3	344.7	387.0	22.3 %	14.7 %	1.2
Revolving Credit Partners	May-15	510.0	—	27.6	(12.0)	15.6	(4)	(4)	(4)
Other Alternative Credit Vehicles	Various	5,093.1	3,421.0	1,945.4	2,696.7	4,642.1	N/A	N/A	N/A
Unallocated Commitments	Various	1,400.0	—	—	—	—	N/A	N/A	N/A
All Funds		\$17,758.4	\$9,929.8	\$4,097.8	\$8,396.4	\$12,494.2			

(1) Recycled capital is excluded from the amounts invested and realized.

(2) These credit funds utilize third party financing facilities to provide liquidity to such funds, and in such event IRRs are calculated from the time capital contributions are due from fund investors to the time fund investors receive a related distribution from the fund. The use of such financing facilities generally decreases the amount of invested capital that would otherwise be used to calculate IRRs, which tends to increase IRRs when fair value grows over time and decrease IRRs when fair value decreases over time. IRRs measure the aggregate annual compounded returns generated by a fund's investments over a holding period and are calculated taking into account recycled capital. Net IRRs presented are calculated after giving effect to the allocation of realized and unrealized carried interest and the payment of any applicable management fees. Gross IRRs are calculated before giving effect to the allocation of carried interest and the payment of any applicable management fees.

(3) The multiples of invested capital measure the aggregate value generated by a fund's investments in absolute terms. Each multiple of invested capital is calculated by adding together the total realized and unrealized values of a fund's investments and dividing by the total amount of capital invested by the investors. The use of financing facilities

generally decreases the amount of invested capital that would otherwise be used to calculate multiples of invested capital, which tends to increase multiples when fair value grows over time and decrease multiples when fair value decreases over time. Such amounts do not give effect to the allocation of any realized and unrealized returns on a fund's investments to the fund's general partner pursuant to a carried interest or the payment of any applicable management fees and are calculated without taking into account recycled capital.

The Revolving Credit Partners fund has been investing for over 24 months. However, the fund has not called any (4) capital to date. As a result, the gross IRR, net IRR and multiple of invested capital performance measures are not meaningful and are not included above.

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Public Markets Vehicle Structures

The table below presents information as of September 30, 2017, based on the investment funds, vehicles or accounts offered by our Public Markets segment. Our funds, vehicles and accounts have been sorted based upon their primary investment strategies. However, the AUM and FPAUM presented for each line in the table includes certain investments from non-primary investment strategies, which is permitted by their investment mandates, for purposes of presenting the fees and other terms for such funds, vehicles and accounts.

(\$ in millions)	AUM	FPAUM	Typical Management Fee Rate	Incentive Fee / Carried Interest	Preferred Return	Duration of Capital
Leveraged Credit:						
Leveraged Credit SMAs/Funds	\$10,394	\$9,719	0.35%-1.50%	Various ⁽¹⁾	Various ⁽¹⁾	Subject to redemptions
CLO's	9,803	9,803	0.40%-0.50%	Various ⁽¹⁾	Various ⁽¹⁾	10-14 Years ⁽²⁾
Total Leveraged Credit	20,197	19,522				
Alternative Credit: ⁽³⁾						
Special Situations	8,080	4,574	0.90%-1.75% ⁽⁴⁾	10.00-20.00%	8.00-12.00%	8-15 Years ⁽²⁾
Private Credit	8,764	4,728	0.50%-1.50%	10.00-20.00%	5.00-8.00%	8-15 Years ⁽²⁾
Total Alternative Credit	16,844	9,302				
Hedge Funds ⁽⁵⁾						
Hedge Funds ⁽⁵⁾	24,438	18,942	0.50%-2.00%	Various ⁽¹⁾	Various ⁽¹⁾	Subject to redemptions
Business Development Companies ⁽⁶⁾	4,251	4,251	1.00%	10.00%	7.00%	7 years
Total	\$65,730	\$52,017				

(1) Certain funds and CLOs are subject to a performance fee in which the manager or general partner of the funds share in up to 20% of the net profits earned by investors in excess of performance hurdles (generally tied to a benchmark or index) and subject to a provision requiring the funds and vehicles to regain prior losses before any performance fee is earned.

(2) Duration of capital is measured from inception. Inception dates for CLOs were between 2005 and 2016 and for separately managed accounts and funds investing in alternative credit strategies from 2009 through 2017.

(3) Our alternative credit funds generally have investment periods of 3 to 5 years and our newer alternative credit funds generally earn fees on invested capital during the investment period.

(4) Lower fees on uninvested capital in certain vehicles.

(5) Hedge Funds represent KKR's pro-rata portion of AUM and FPAUM of our strategic manager partnerships, which consist of minority stakes in other hedge fund managers.

Consists of Corporate Capital Trust ("CCT") and Corporate Capital Trust II, which are BDCs sub-advised by KKR.

(6) These vehicles invest in both leveraged credit and private credit strategies. On September 21, 2017, CCT shareholders approved, among other things, a proposal for KKR Credit Advisors (US) LLC to become CCT's sole investment adviser subject to the listing of CCT's shares on a national securities exchange, which is pending.

Capital Markets

Our capital markets business supports our firm, our 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. When we underwrite an offering of securities or a loan on a firm

commitment basis, we commit to buy and sell an issue of securities or indebtedness and generate revenue by purchasing the securities or indebtedness at a discount or for a fee. When we act in an agency capacity or best efforts basis, we generate revenue for arranging financing or placing securities or debt with capital markets investors. We may also provide issuers with capital markets advice on security selection, access to markets, marketing considerations, securities pricing, and other aspects of capital markets transactions in exchange for a fee. When we are sole arrangers of a credit facility, we generally advance amounts to the borrower on behalf of other lenders, for which such lenders are expected to repay us promptly. KKR Capital Markets LLC is an SEC-registered broker-dealer and a FINRA member, and we are also registered or authorized to carry out certain broker-dealer activities in various countries in North America, Europe, Asia-Pacific and the Middle East.

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Principal Activities

Through our Principal Activities segment, we manage the firm's own assets on our balance sheet and deploy capital to support and grow our businesses. Our Principal Activities segment uses our balance sheet assets to support our investment management and capital markets businesses. Typically, the funds in our Private Markets and Public Markets businesses contractually require us, as general partner of the funds, to make sizable capital commitments from time to time. We believe our general partner commitments are indicative of the conviction we have in a given fund's strategy, which assists us in raising new funds from limited partners. We also use our balance sheet to acquire investments in order to help establish a track record for fundraising purposes in new strategies. We may also use our own capital to seed investments for new funds, to bridge capital selectively for our funds' investments or finance strategic acquisitions and partnerships, although the financial results of an acquired business or strategic partnership may be reported in our other segments.

Our Principal Activities segment also provides the required capital to fund the various commitments of our Capital Markets business when underwriting or syndicating securities, or when providing term loan commitments for transactions involving our portfolio companies and for third parties. Our Principal Activities segment also holds assets that may be utilized to satisfy regulatory requirements for our Capital Markets business and risk retention requirements for our CLO business.

We also make opportunistic investments through our Principal Activities segment, which include co-investments alongside our Private Markets and Public Markets funds, as well as make Principal Activities investments that do not involve our Private Markets or Public Markets funds.

We endeavor to use our balance sheet strategically and opportunistically to generate an attractive risk-adjusted return on equity in a manner that is consistent with our fiduciary duties and in compliance with applicable laws.

The chart below presents the holdings of our Principal Activities segment by asset class as of September 30, 2017.

(1) General partner commitments in our funds are included in the various asset classes shown above. Assets and revenues of other asset managers with which KKR has formed strategic partnerships where KKR does not hold more than 50% ownership interest are not included in our Principal Activities segment but are reported in the financial results of our other segments. Private Equity and Other Equity includes KKR private equity funds, co-investments alongside such KKR sponsored private equity funds, core private equity co-investments, and other opportunistic investments. However, equity investments in other asset classes, such as real estate, special situations and energy appear in these other asset classes. Other Credit consists of liquid credit and specialty finance strategies.

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Business Environment

Market Conditions

Global Economic Conditions. As a global investment firm, we are affected by financial and economic conditions globally. Global and regional economic conditions have a substantial impact on our financial condition and results of operations, impacting the values of the investments we make, our ability to exit these investments profitably and our ability to make new investments. Financial and economic conditions in the United States, the European Union and other major economies are significant contributors to the global economy. According to Bloomberg consensus forecasts as of September 30, 2017, real GDP in the United States increased at a seasonally adjusted annualized rate of 2.3% for the quarter ended September 30, 2017 compared to 3.1% for the quarter ended June 30, 2017. According to the Bureau of Labor Statistics, the U.S. unemployment rate was 4.2% as of September 30, 2017, down from 4.4% as of June 30, 2017. Key economic and financial issues for the United States include, but are not limited to, whether or not the U.S. government will enact its proposed fiscal stimulus through tax cuts or infrastructure spending, the pace and levels at which the Federal Reserve raises interest rates and reduces its balance sheet, the U.S. debt ceiling and the ability of the U.S. government to pay its debt when due. These and other key issues could have adverse repercussions across regional and global financial markets, which could adversely affect the valuations of our investments. For the quarter ended September 30, 2017, Bloomberg estimates suggest that Euro Area real GDP growth was 0.5% on a quarter over quarter basis, compared to actual quarter over quarter growth of 0.6% as of June 30, 2017. Euro Area core inflation was 1.1% on a year over year basis as of September 30, 2017, unchanged relative to June 30, 2017. In March 2017, the United Kingdom triggered Article 50 to formally begin the process to exit from the European Union. Continuing controversy and uncertainty surrounding key issues such as immigration, austerity, and globalization and risk of countries exiting the European Union, as well as the activities of the European Central Bank, could impair economic growth in the region and lead to financial market volatility. These and other key issues, such as heightened geopolitical risk, could have adverse repercussions across regional and global financial markets, which could adversely affect the valuations of our investments. In addition, on a quarter over quarter, seasonally adjusted basis, China's real GDP grew 1.7% in the quarter ended September 30, 2017, slightly slower than the 1.8% reported for the quarter ended June 30, 2017. A slowdown in China's economic growth could adversely impact the valuations of our investments in China and could also adversely impact the global economy, particularly other emerging markets. For a further discussion of how market conditions may affect our businesses, see "Risk Factors- Risks Related to Our Business - Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition" in our Annual Report on Form 10-K.

Global Equity and Credit Markets. Global equity and credit markets have a substantial effect on our financial condition and results of operations. In general, a climate of reasonable interest rates and high levels of liquidity in the debt and equity capital markets provide a positive environment for us to generate attractive investment returns, which also impacts our ability to generate incentive fees and carried interest. Periods of volatility and dislocation in the capital markets present substantial risks, but also can present us with opportunities to invest at reduced valuations that position us for future growth and investment returns.

Many of our investments are in equities, so a change in global equity prices or in market volatility directly impacts the value of our investments and our profitability as well as our ability to realize investment gains and the receptiveness of fund investors to our investment products. For the quarter ended September 30, 2017, global equity markets were positive, with the S&P 500 Index up 4.5% and the MSCI World Index up 5.0% on a total return basis including dividends. Equity market volatility as evidenced by the Chicago Board Options Exchange Market Volatility Index, or the VIX, a measure of volatility, ended at 9.5 as of September 30, 2017 decreasing from 11.2 as of June 30, 2017. For a further discussion of our valuation methods, see "Risk Factors-Risks Related to the Assets We Manage - Our investments are impacted by various economic conditions that are difficult to quantify or predict, and may have a

significant impact on the valuation of our investments and, therefore, on the investment income we realize and our financial condition and results of operations” in our Annual Report on Form 10-K and “-Critical Accounting Policies-Fair Value Measurements-Level III Valuation Methodologies” in this report.

Many of our investments are also in non-investment grade credit instruments, and our funds and our portfolio companies also rely on credit financing and the ability to refinance existing debt. Consequently, any decrease in the value of credit instruments that we have invested in or any increase in the cost of credit financing reduces our returns and decreases our net income. In particular due in part to holdings of credit instruments such as CLOs on our balance sheet, the performance of the credit markets has had an amplified impact on our financial results, as we directly bear the full extent of losses from credit instruments on our balance sheet. Credit markets can also impact valuations because a discounted cash flow analysis is generally used as one of the methodologies used to ascertain the fair value of our investments that do not have readily observable market prices. In addition, with respect to our credit instruments, tightening credit spreads are generally expected to

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lead to an increase, and widening credit spreads are generally expected to lead to a decrease, in the value of these credit investments, if not offset by hedging or other factors. In addition, the significant widening of credit spreads is also typically expected to negatively impact equity markets, which in turn would negatively impact our portfolio and us as noted above. During the quarter ended September 30, 2017, US Investment Grade corporate bond spreads (BofAML US Corporate Index) tightened by 9 basis points and US High-Yield corporate bond spreads (BofAML HY Master II Index) tightened by 23 basis points. For a further discussion of how market conditions may affect our businesses, see “Risk Factors- Risks Related to Our Business - Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition” and “Risks Related to the Assets We Manage - Our investments are impacted by various economic conditions that are difficult to quantify or predict, and may have a significant impact on the valuation of our investments and, therefore, on the investment income we realize and our financial condition and results of operations” in our Annual Report on Form 10-K.

The non-investment grade credit indices rose during the quarter ended September 30, 2017, with the S&P/LSTA Leveraged Loan Index up 1.0% and the BofAML HY Master II Index up 2.0%. For the quarter ended September 30, 2017, 10-year government bond yields rose 3 basis points in the United States, rose 6 basis points in China, fell 2 basis points in Japan and stayed flat in Germany. For further discussion of the impact of global credit markets on our financial condition and results of operations, see “Risk Factors - Risks Related to the Assets We Manage -Changes in the debt financing markets may negatively impact the ability of our investment funds, their portfolio companies and strategies pursued with our balance sheet assets to obtain attractive financing for their investments or refinance existing debt and may increase the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income,” “- Our investments are impacted by various economic conditions that are difficult to quantify or predict, and may have a significant impact on the valuation of our investments and, therefore, on the investment income we realize and our financial condition and results of operations” and “- Because we hold interests in some of our portfolio companies both through our management of private equity funds as well as through separate investments in those funds and direct co-investments, fluctuation in the fair values of these portfolio companies may have a disproportionate impact on the investment income earned by us” in our Annual Report on Form 10-K and “-Critical Accounting Policies-Fair Value Measurements-Level III Valuation Methodologies” in this report.

Foreign Exchange Rates. Foreign exchange rates have a substantial impact on the valuations of our investments that are denominated in currencies other than the U.S. dollar. Currency volatility can also affect our businesses and investments, which deal in cross border trade. The appreciation or depreciation of the U.S. dollar is expected to contribute to a decrease or increase, respectively, in the U.S. dollar value of our non U.S. investments to the extent unhedged. In addition, an appreciating U.S. dollar would be expected to make the exports of U.S. based companies less competitive, which may lead to a decline in their export revenues, if any, while a depreciating U.S. dollar would be expected to have the opposite effect. Moreover, when selecting investments for our investment funds that are denominated in U.S. dollars, an appreciating U.S. dollar may create opportunities to invest at more attractive U.S. dollar prices in certain countries outside of the U.S., while a depreciating U.S. dollar would be expected to have the opposite effect. For the quarter ended September 30, 2017, the euro rose 3.4%, the Chinese renminbi rose 1.9%, and the British pound rose 2.9%, respectively, relative to the U.S. dollar. See “Risk Factors- Risks Related to Our Business - Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition” in our Annual Report on Form 10-K. For additional information regarding our foreign exchange rate risk, see “-Quantitative and Qualitative Disclosure About Market Risk - Exchange Rate Risk” in our Annual Report on Form 10-K.

Commodity Markets. Our Private Markets portfolio contains energy real asset investments, and certain of our other Private Markets and Public Markets strategies and products, including private equity, direct lending, special situations

and CLOs, also have meaningful investments in the energy sector. The value of these investments is heavily influenced by the price of natural gas and oil. During the quarter ended September 30, 2017, the long-term price of WTI crude oil increased approximately 2%, while the long-term price of natural gas was relatively stable. The long-term price of WTI crude oil increased from approximately \$49 per barrel to \$50 per barrel, and the long-term price of natural gas decreased from approximately \$2.85 per mcf to \$2.84 per mcf as of June 30, 2017 and September 30, 2017, respectively. When commodity prices decline or if a decline is not offset by other factors, we would expect the value of our energy real asset investments to be adversely impacted. In addition, because we hold certain energy assets on our balance sheet, which had a fair value of \$0.5 billion as of September 30, 2017, these price movements would have an amplified impact on our financial results, as we would directly bear the full extent of such gains or losses. For additional information regarding our energy real assets, see “-Critical Accounting Policies-Fair Value Measurements-Level III Valuation Methodologies-Real Asset Investments” in this report and “Risk Factors - Risks Related to the Assets We Manage - Because we hold interests in some of our portfolio companies both through our management of private equity funds as well as through separate investments in those funds and direct co-investments,

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fluctuation in the fair values of these portfolio companies may have a disproportionate impact on the investment income earned by us” in our Annual Report on Form 10-K.

Basis of Accounting

We consolidate the financial results of the KKR Group Partnerships and their consolidated subsidiaries, which include the accounts of our investment management and capital markets companies, the general partners of unconsolidated funds and vehicles, general partners of certain funds that are consolidated and their respective consolidated funds and certain other entities including certain consolidated CLOs and commercial real estate mortgage-backed securities, or "CMBS". We refer to CLOs and CMBS as collateralized financing entities or CFEs.

When an entity is consolidated, we reflect the accounts of the consolidated entity, including its assets, liabilities, fees, expenses, investment income, cash flows and other amounts, on a gross basis. While the consolidation of a consolidated fund or entity does not have an effect on the amounts of Net Income Attributable to KKR or KKR's partners' capital that KKR reports, the consolidation does significantly impact the financial statement presentation under GAAP. This is due to the fact that the accounts of the consolidated entities are reflected on a gross basis while the allocable share of those amounts that are attributable to third parties are reflected as single line items. The single line items in which the accounts attributable to third parties are recorded are presented as noncontrolling interests on the consolidated statements of financial condition and net income attributable to noncontrolling interests on the consolidated statements of operations.

For a further discussion of our consolidation policies, see "Item 1. Condensed Consolidated Financial Statements (Unaudited)--Summary of Significant Accounting Policies."

Key Financial Measures Under GAAP

Fees and Other

Fees and other consist primarily of (i) transaction fees earned in connection with successful investment transactions and from capital markets activities, (ii) management and incentive fees from providing investment management services to unconsolidated funds, CLOs, other vehicles and separately managed accounts, (iii) monitoring fees from providing services to portfolio companies, (iv) carried interest allocations to general partners of unconsolidated funds, (v) revenue earned by oil and gas-producing entities that are consolidated and (vi) consulting fees earned by entities that employ non-employee operating consultants. These fees are based on the contractual terms of the governing agreements and are recognized when earned, which coincides with the period during which the related services are performed and in the case of transaction fees, upon closing of the transaction. Monitoring fees may provide for a termination payment following an initial public offering or change of control. These termination payments are recognized in the period when the related transaction closes. Monitoring fees also include certain expense reimbursements from certain portfolio companies and unconsolidated funds.

For a further discussion of our fee policies, see "Item 1. Condensed Consolidated Financial Statements (Unaudited)--Summary of Significant Accounting Policies."

Expenses

Compensation and Benefits

Compensation and benefits expense includes cash compensation consisting of salaries, bonuses, and benefits, as well as equity-based compensation consisting of charges associated with the vesting of equity-based awards, carry pool

allocations and other performance-based income compensation. All employees and employees of certain consolidated entities receive a base salary that is paid by KKR or its consolidated entities, and is accounted for as compensation and benefits expense. These employees are also eligible to receive discretionary cash bonuses based on performance, overall profitability and other matters. While cash bonuses paid to most employees are borne by KKR and certain consolidated entities and result in customary compensation and benefits expense, cash bonuses that are paid to certain employees are currently borne by KKR Holdings. These bonuses have historically been funded with distributions that KKR Holdings receives on KKR Group Partnership Units held by KKR Holdings but are not then passed on to holders of unvested units of KKR Holdings. Because employees are not entitled to receive distributions on units that are unvested, any amounts allocated to employees in excess of an employee's vested equity interests are reflected as employee compensation and benefits expense. These compensation charges are currently recorded based on the amount of cash expected to be paid by KKR Holdings. Because KKR makes only fixed quarterly distributions, the distributions made on KKR Group Partnership Units underlying any unvested KKR Holdings units are generally insufficient to fund annual cash bonus compensation to the same extent as in periods prior to the fourth quarter of

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2015. In addition, substantially all units in KKR Holdings have been allocated and will vest over a 5 year period, thus decreasing the amount of distributions received by KKR Holdings that are available for annual cash bonus compensation. We, therefore, expect to pay an increasing portion and eventually all of the cash bonus payments currently borne by KKR Holdings from other sources, including cash from our operations, the carry pool and other performance-based income compensation as described below. See "Risks Related to Our Business - If we cannot retain and motivate our principals and other key personnel and recruit, retain and motivate new principals and other key personnel, our business, results and financial condition could be adversely affected" in our Annual Report on Form 10-K regarding the adequacy of such distributions to fund future discretionary cash bonuses.

KKR uses three different methods, which are designed to yield comparable results, to allocate carried interest and other performance income compensation. With respect to KKR's investment funds that provide for carried interest without a preferred return, KKR allocates 40% of the carried interest received from such funds to its carry pool for employees and non-employee operating consultants. In addition, for investment funds that provide for incentive fees rather than carried interest, our carry pool is supplemented by allocating 40% of the incentive fees earned from such funds to performance income compensation. Beginning with the quarter ended September 30, 2016, for investment funds that provide for carried interest with a preferred return and have accrued carried interest as of June 30, 2017, KKR also includes 40% of the management fees that would have been subject to a management fee refund as performance income compensation. Because of the different ways management fees are refunded in preferred return and non-preferred return funds that provide for carried interest, this calculation of 40% of the portion of the management fees subject to refund for funds that have a preferred return is designed to allocate to compensation an amount comparable to the amount that would have been allocated to the carry pool had the fund not had a preferred return. Beginning with the quarter ending September 30, 2017, for future and current carry generating funds with no or minimal accrued carried interest as of June 30, 2017, KKR will allocate 43% of the carried interest to the carry pool instead of 40% of carried interest. The incremental 3% replaces the allocation of management fee refunds that would have been calculated for those funds and is designed, based on a historical financial analysis of certain investment funds, to allocate an amount for preferred return funds that is comparable to the management fee refunds that would have been allocated as performance income compensation for those funds. The percentage of carried interest, management fee refunds, and incentive fees allocable to the carry pool or as performance income compensation is subject to change from time to time. For a discussion of how management fees are refunded for preferred return funds and non-preferred funds see "--Fair Value Measurements--Recognition of Carried Interest in the Statement of Operations".

The amounts allocated to the carry pool and other performance-based income compensation are accounted for as compensatory profit-sharing arrangements and recorded as compensation and benefits expense for KKR employees and general, administrative and other expense for certain non-employee consultants and service providers in the consolidated statements of operations prepared in accordance with U.S. GAAP.

General, Administrative and Other

General, administrative and other expense consists primarily of professional fees paid to legal advisors, accountants, advisors and consultants, insurance costs, travel and related expenses, communications and information services, depreciation and amortization charges, changes in fair value of contingent consideration, expenses incurred by oil and gas-producing entities (including impairment charges) that are consolidated and other general and operating expenses which are not borne by fund investors and are not offset by credits attributable to fund investors' noncontrolling interests in consolidated funds. General, administrative and other expense also consists of costs incurred in connection with pursuing potential investments that do not result in completed transactions, a substantial portion of which are borne by fund investors.

Investment Income (Loss)

Net Gains (Losses) from Investment Activities

Net gains (losses) from investment activities consist of realized and unrealized gains and losses arising from our investment activities. A large portion of our net gains (losses) from investment activities are related to our private equity investments. Fluctuations in net gains (losses) from investment activities between reporting periods is driven primarily by changes in the fair value of our investment portfolio as well as the realization of investments. The fair value of, as well as the ability to recognize gains from, our private equity and other investments is significantly impacted by the global financial markets, which, in turn, affects the net gains (losses) from investment activities recognized in any given period. Upon the disposition of an investment, previously recognized unrealized gains and losses are reversed and an offsetting realized gain or loss is recognized in the current period. Since our investments are carried at fair value, fluctuations between periods could be significant due to changes to the inputs to our valuation process over time. For a further discussion of our fair value measurements and fair value of investments, see "—Critical Accounting Policies—Fair Value Measurements."

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Dividend Income

Dividend income consists primarily of distributions that we and our consolidated investment funds receive from portfolio companies in which they invest. Dividend income is recognized primarily in connection with (i) dispositions of operations by portfolio companies, (ii) distributions of excess cash generated from operations from portfolio companies and (iii) other significant refinancings undertaken by portfolio companies.

Interest Income

Interest income consists primarily of interest that is received on our credit instruments in which we and our consolidated funds and other entities invest as well as interest on our cash balances and other investments.

Interest Expense

Interest expense is incurred from debt issued by KKR, including debt issued by KFN which was consolidated upon completion of the acquisition of KFN, credit facilities entered into by KKR, debt securities issued by consolidated CFEs and financing arrangements at our consolidated funds entered into primarily with the objective of managing cash flow. KFN's debt obligations are non-recourse to KKR beyond the assets of KFN. Debt securities issued by consolidated CFEs are supported solely by the investments held at the CFE and are not collateralized by assets of any other KKR entity. Our obligations under financing arrangements at our consolidated funds are generally limited to our pro-rata equity interest in such funds. However, in some circumstances, we may provide limited guarantees of the obligations of our general partners in an amount equal to its pro rata equity interest in such funds. We also may provide other kinds of guarantees. See "—Liquidity".

Income Taxes

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 non-U.S. jurisdictions. Accordingly, these entities, in some cases, are subject to New York City unincorporated business taxes, or non-U.S. income taxes. Furthermore, we hold our interest in one of the KKR Group Partnerships through KKR Management Holdings Corp., which is treated as a corporation for U.S. federal income tax purposes, and certain other subsidiaries of the KKR Group Partnerships are treated as corporations for U.S. federal income tax purposes. Accordingly, certain subsidiaries of KKR, including KKR Management Holdings Corp., are subject to U.S. federal, state and local corporate income taxes at the entity level and the related tax provision attributable to KKR's share of this income is reflected in the financial statements. We also generate certain interest income to our unitholders and interest deductions to KKR Management Holdings Corp.

We use the asset and liability method to account for income taxes in accordance with GAAP. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that all or a portion of the deferred tax assets will not be realized.

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

Net Income (Loss) Attributable to Noncontrolling Interests

Net income (loss) attributable to noncontrolling interests primarily represents the ownership interests that certain third parties hold in entities that are consolidated in the financial statements as well as the ownership interests in our KKR Group Partnerships that are held by KKR Holdings. The allocable share of income and expense attributable to these interests is accounted for as net income (loss) attributable to noncontrolling interests. Given the consolidation of certain of our investment funds and the significant ownership interests in our KKR Group Partnerships held by KKR Holdings, we expect a portion of net income (loss) will continue to be attributed to noncontrolling interests in our business.

For a further discussion of our noncontrolling interests policies, see "Item 1. Condensed Consolidated Financial Statements (Unaudited)--Summary of Significant Accounting Policies."

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Segment Operating and Performance Measures

The segment key performance measures that follow are used by management in making operating and resource deployment decisions as well as assessing the overall performance of each of KKR's reportable business segments. The reportable segments for KKR's business are presented prior to giving effect to the allocation of income (loss) between KKR & Co. L.P. and KKR Holdings L.P. and as such represent the business in total. In addition, KKR's reportable segments are 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. L.P.

We disclose the following 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 unitholders 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 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 "Financial Statements and Supplementary Data — Note 14. Segment Reporting" and later in this report under "—Segment Balance Sheet."

Adjusted Units

Adjusted units are used as a measure of the total common equity ownership of KKR that is held by KKR & Co. L.P. (including equity awards issued under the KKR & Co. L.P. 2010 Equity Incentive Plan (the "Equity Incentive Plan"), but excluding preferred units), KKR Holdings and other holders of securities exchangeable into common units of KKR & Co. L.P. and represent the fully diluted common unit count using the if-converted method. We believe this measure is useful to unitholders as it provides an indication of the total common equity ownership of KKR as if all outstanding KKR Holdings units, equity awards issued under the Equity Incentive Plan and other exchangeable securities had been exchanged for common units of KKR & Co. L.P. The Series A and Series B Preferred Units are not exchangeable for common units of KKR & Co. L.P.

Adjusted Units Eligible for Distribution

Adjusted units eligible for distribution represents the portion of total adjusted units that is eligible to receive a distribution. We believe this measure is useful to unitholders as it provides insight into the calculation of amounts available for distribution on a per unit basis. Adjusted units eligible for distribution is used in the calculation of after-tax distributable earnings per unit.

After-Tax Distributable Earnings

After-tax distributable earnings is used by management as an operating measure of the earnings excluding mark-to-market gains (losses) of KKR. KKR believes this measure is useful to unitholders as it provides a supplemental measure to assess performance, excluding the impact of mark-to-market gains (losses). After-tax distributable earnings excludes certain realized investment losses to the extent unrealized losses on these investments were recognized prior to the combination with KPE on October 1, 2009. After-tax distributable earnings does not represent and is not used to calculate actual distributions under KKR's distribution policy.

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The following tables present our calculations of distributable segment revenues, which is our total segment revenues excluding the impact of mark-to-market gains (losses), distributable segment expenses, which is our total segment expenses excluding the impact of mark-to-market gains (losses), and after-tax distributable earnings on common units for the three and nine months ended September 30, 2017 and 2016. Additionally, the individual components of our calculations of after-tax distributable earnings are reconciled to the most directly comparable GAAP measure in the tables below.

The following table presents our calculation of distributable segment revenues for the three and nine months ended September 30, 2017 and 2016.

(\$ in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Distributable Segment Revenues				
Fees and Other, Net				
Management Fees	\$232,954	\$ 201,508	\$670,807	\$ 599,725
Monitoring Fees	14,342	11,091	58,072	52,126
Transaction Fees	179,167	111,354	578,667	276,003
Fee Credits	(70,747)	(47,392)	(211,148)	(109,272)
Total Fees and Other, Net	355,716	276,561	1,096,398	818,582
Realized Performance Income (Loss)				
Incentive Fees	4,074	3,659	8,384	9,897
Carried Interest	419,438	350,469	890,310	753,032
Total Realized Performance Income (Loss)	423,512	354,128	898,694	762,929
Realized Investment Income (Loss)				
Net Realized Gains (Losses)	76,053	170,078	162,684	370,594
Interest Income and Dividends	70,557	71,185	195,275	253,756
Interest Expense	(45,613)	(47,506)	(134,348)	(144,497)
Total Realized Investment Income (Loss)	100,997	193,757	223,611	479,853
Total Distributable Segment Revenues	\$880,225	\$ 824,446	\$2,218,703	\$ 2,061,364

The following table presents our calculation of distributable segment expenses for the three and nine months ended September 30, 2017 and 2016.

(\$ in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Distributable Segment Expenses				
Compensation and Benefits				
Cash Compensation and Benefits	\$130,621	\$ 101,967	\$405,578	\$ 299,756
Performance Income Compensation	177,705	159,151	377,689	322,671
Total Compensation and Benefits	308,326	261,118	783,267	622,427
Occupancy and Related Charges	14,672	15,877	42,448	47,486
Other Operating Expenses	70,517	55,123	177,084	166,542
Total Distributable Segment Expenses	\$393,515	\$ 332,118	\$1,002,799	\$ 836,455

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The following table presents our calculation of after-tax distributable earnings for the three and nine months ended September 30, 2017 and 2016.

(\$ in thousands except per unit data)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
After-tax Distributable Earnings				
Distributable Segment Revenues	\$880,225	\$ 824,446	\$2,218,703	\$ 2,061,364
Distributable Segment Expenses	393,515	332,118	1,002,799	836,455
Income (Loss) attributable to Noncontrolling Interests	1,046	760	3,810	2,002
Income taxes paid	12,869	21,869	54,228	71,191
Preferred distributions	8,341	8,201	25,023	13,894
After-tax Distributable Earnings	\$464,454	\$ 461,498	\$ 1,132,843	\$ 1,137,822
Per Adjusted Unit Eligible for Distribution	\$0.57	\$ 0.57	\$1.39	\$ 1.41

For a discussion of the components that drove the changes in our after-tax distributable earnings, see discussion of (i) management, monitoring and transaction fees, (ii) realized performance income, (iii) realized gains and net interest and dividends within investment income and (iv) expenses excluding unrealized performance income compensation, within “—Segment Analysis.”

The following are reconciliations of the individual components of the calculation of after-tax distributable earnings to the most directly comparable GAAP measure.

(\$ in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Fees and Other	\$692,877	\$687,056	\$2,340,617	\$1,426,618
Plus: Management fees relating to consolidated funds and placement fees	54,012	49,017	153,414	131,335
Less: Fee credits relating to consolidated funds	106	417	3,752	2,766
Plus: Net realized and unrealized carried interest - consolidated funds	22,341	5,956	43,782	15,581
Plus: Total investment income (loss)	50,095	330,497	684,722	(245,846)
Less: Revenue earned by oil & gas producing entities	12,441	16,191	47,096	47,977
Less: Reimbursable expenses	27,506	12,064	87,131	46,583
Less: Other	9,587	12,317	27,035	29,453
Total Segment Revenues	\$769,685	\$1,031,537	\$3,057,521	\$1,200,909
Less: Unrealized Carried Interest	(59,638)	70,351	377,707	(134,756)
Less: Net Unrealized Gains (Losses)	(50,902)	136,740	461,111	(725,699)
Total Distributable Segment Revenues	\$880,225	\$824,446	\$2,218,703	\$2,061,364

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(\$ in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Total Expenses	\$530,247	\$511,117	\$1,699,989	\$1,242,658
Less: Equity based compensation	72,250	61,552	271,226	186,032
Less: Reimbursable expenses and placement fees	37,508	18,255	132,491	72,887
Less: Operating expenses relating to consolidated funds, CFEs and other entities	21,858	20,141	56,517	85,093
Less: Expenses incurred by oil & gas producing entities	10,725	17,782	34,826	56,000
Less: Intangible amortization	2,473	22,112	13,901	35,640
Less: Other	11,744	9,764	31,067	19,275
Total Segment Expenses	\$373,689	\$361,511	\$1,159,961	\$787,731
Less: Unrealized Performance Income Compensation	(19,826)	29,393	157,162	(48,724)
Total Distributable Segment Expenses	\$393,515	\$332,118	\$1,002,799	\$836,455

Assets Under Management ("AUM")

Assets under management ("AUM") represent the assets managed or advised by KKR from which KKR is entitled to receive fees or a carried interest (either currently or upon deployment of capital), general partner capital and assets managed or advised by strategic manager partnerships in which KKR holds a minority ownership interest. We believe this measure is useful to unitholders as it provides additional insight into the capital raising activities of KKR and its strategic manager partnerships and the overall activity in their investment funds and other managed capital. KKR calculates the amount of AUM as of any date as the sum of: (i) the fair value of the investments of KKR's investment funds; (ii) uncalled capital commitments from these funds, including uncalled capital commitments from which KKR is currently not earning management fees or carried interest; (iii) the fair value of investments in KKR's co-investment vehicles; (iv) the par value of outstanding CLOs (excluding CLOs wholly-owned by KKR); (v) KKR's pro-rata portion of the AUM of strategic manager partnerships in which KKR holds a minority ownership interest, and (vi) the fair value of other assets managed by KKR. The pro-rata portion of the AUM of strategic manager partnerships is calculated based on KKR's percentage ownership interest in such entities multiplied by such entity's respective AUM. KKR's definition of AUM is not based on any definition of AUM that may be set forth in the agreements governing the investment funds, vehicles or accounts that it manages or calculated pursuant to any regulatory definitions.

Book Value

Book value is a measure of the net assets of KKR's reportable segments and is used by management primarily in assessing the unrealized value of KKR's investments and other assets, including carried interest. We believe this measure is useful to unitholders as it provides additional insight into the assets and liabilities of KKR excluding the assets and liabilities that are allocated to noncontrolling interest holders and to the holders of the Series A and Series B Preferred Units.

Capital Invested

Capital invested is the aggregate amount of capital invested by (i) KKR's investment funds, (ii) KKR's Principal Activities segment as a co-investment, if any, alongside KKR's investment funds, and (iii) the Principal Activities segment in connection with a syndication transaction conducted by KKR's Capital Markets segment, if any. Capital invested is used as a measure of investment activity at KKR during a given period. We believe this measure is useful

to unitholders as it provides a measure of capital deployment across KKR's business segments. Capital invested includes investments made using investment financing arrangements like credit facilities, as applicable. Capital invested excludes (i) investments in liquid credit strategies, (ii) capital invested by KKR's Principal Activities segment that is not a co-investment alongside KKR's investment funds, and (iii) capital invested by the Principal Activities segment that is not invested in connection with a syndication transaction by KKR's Capital Markets segment. Capital syndicated by our Capital Markets segment to third parties other than KKR's investment funds or Principal Activities segment is not included in capital invested. See also syndicated capital. In the fourth quarter of 2016, the capital invested metric was changed to include capital invested by KKR's Principal Activities segment and all prior periods in this report have been adjusted.

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Economic Net Income (Loss) ("ENI")

Economic net income (loss) is a measure of profitability for KKR's reportable segments and is used by management as an alternative measurement of the operating and investment earnings of KKR and its business segments. We believe this measure is useful to unitholders as it provides additional insight into the overall profitability of KKR's businesses inclusive of carried interest, incentive fees and related carry pool allocations and investment income. ENI is comprised of total segment revenues less total segment expenses and certain economic interests in KKR's segments held by third parties. Pre-tax Economic Net Income (Loss) represents Economic Net Income (Loss) after equity-based compensation. After-tax Economic Net Income (Loss) represents Economic Net Income (Loss) after equity-based compensation, provision for income taxes and preferred distributions.

Fee Paying AUM ("FPAUM")

Fee paying AUM ("FPAUM") represents only the AUM from which KKR receives management fees. We believe this measure is useful to unitholders as it provides additional insight into the capital base upon which KKR earns management fees. FPAUM is the sum of all of the individual fee bases that are used to calculate KKR's and its strategic manager partnerships' management fees and differs from AUM in the following respects: (i) assets and commitments from which KKR does not receive a management fee are excluded (i.e. assets and commitments with respect to which it receives only carried interest or is otherwise not currently receiving a management fee) and (ii) certain assets, primarily in its private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments.

Fee Related Earnings ("FRE")

Fee related earnings is a measure of the operating earnings of KKR and its business segments before performance income, related performance income compensation and investment income. KKR believes this measure may be useful to unitholders as it provides additional insight into the operating profitability of KKR's fee generating management companies and capital markets businesses.

Outstanding Adjusted Units

Outstanding adjusted units represents the portion of total adjusted units that would receive assets of KKR if it were to be liquidated as of a particular date. Outstanding adjusted units is used to calculate book value per outstanding adjusted unit, which we believe is useful to unitholders as it provides a measure of net assets of KKR's reportable segments on a per unit basis.

Syndicated Capital

Syndicated capital is generally the aggregate amount of capital in transactions originated by KKR and its investment funds and carry-yielding co-investment vehicles, which has been distributed to third parties in exchange for a fee. It does not include (i) capital invested in such transactions by KKR investment funds and carry-yielding co-investment vehicles, which is instead reported in capital invested and (ii) debt capital that is arranged as part of the acquisition financing of transactions originated by KKR investment funds and (iii) debt capital that is either underwritten or arranged on a best efforts basis. Syndicated capital is used as a measure of investment activity for KKR during a given period, and we believe that this measure is useful to unitholders as it provides additional insight into levels of syndication activity in KKR's Capital Markets segment and across its investment platform.

Uncalled Commitments

Uncalled commitments are used as a measure of unfunded capital commitments that KKR's investment funds and carry-paying co-investment vehicles have received from partners to contribute capital to fund future investments. We believe this measure is useful to unitholders as it provides additional insight into the amount of capital that is available to KKR's investment funds to make future investments. Uncalled commitments are not reduced for investments completed using fund-level investment financing arrangements.

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A reconciliation of Net Income (Loss) Attributable to KKR & Co. L.P. Common Unitholders on a GAAP basis to ENI, FRE and After-tax Distributable Earnings is provided below. For a discussion of the components that drove the changes in our FRE, see discussion of (i) management, monitoring and transaction fees, and (ii) expenses of our Private Markets, Public Markets and Capital Markets segments excluding unrealized performance income compensation, in “—Segment Analysis.”

(\$ in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net Income (Loss) Attributable to KKR & Co. L.P. Common Unitholders	\$ 153,563	\$ 352,152	\$ 818,552	\$ 116,103
Plus: Preferred Distributions	8,341	8,201	25,023	13,894
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings L.P.	115,434	284,834	637,146	86,659
Plus: Non-cash equity-based charges	78,728	61,552	277,704	186,032
Plus: Amortization of intangibles, placement fees and other, net	20,464	(48,299)	57,825	(10,273)
Plus: Income tax (benefit)	18,420	10,826	77,500	18,761
Economic Net Income (Loss)	394,950	669,266	1,893,750	411,176
Plus: Income attributable to segment noncontrolling interests	1,046	760	3,810	2,002
Less: Total investment income (loss)	50,095	330,497	684,722	(245,846)
Less: Net performance income (loss)	205,995	235,935	741,550	354,226
Plus: Expenses of Principal Activities Segment	51,974	38,659	156,938	116,214
Fee Related Earnings	191,880	142,253	628,226	421,012
Plus: Net interest and dividends	24,944	23,679	60,927	109,259
Less: Expenses of Principal Activities Segment	51,974	38,659	156,938	116,214
Plus: Realized performance income (loss), net	245,807	194,977	521,005	440,258
Plus: Net realized gains (losses)	76,053	170,078	162,684	370,594
Less: Income taxes paid	12,869	21,869	54,228	71,191
Less: Preferred distributions	8,341	8,201	25,023	13,894
Less: Income attributable to segment noncontrolling interests	1,046	760	3,810	2,002
After-tax Distributable Earnings	\$ 464,454	\$ 461,498	\$ 1,132,843	\$ 1,137,822

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Unaudited Condensed Consolidated Results of Operations

The following is a discussion of our condensed consolidated results of operations for the three and nine months ended September 30, 2017 and 2016. You should read this discussion in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report. For a more detailed discussion of the factors that affected the results of operations of our four business segments in these periods, see “—Segment Analysis.”

Three months ended September 30, 2017 compared to three months ended September 30, 2016

	Three Months Ended		Change
	September 30, 2017	September 30, 2016	
	(\$ in thousands)		
Revenues			
Fees and Other	\$692,877	\$687,056	\$5,821
Expenses			
Compensation and Benefits	368,513	358,161	10,352
Occupancy and Related Charges	15,267	16,405	(1,138)
General, Administrative and Other	146,467	136,551	9,916
Total Expenses	530,247	511,117	19,130
Investment Income (Loss)			
Net Gains (Losses) from Investment Activities	108,779	735,144	(626,365)
Dividend Income	20,774	73,105	(52,331)
Interest Income	317,134	256,505	60,629
Interest Expense	(211,959)	(255,105)	43,146
Total Investment Income (Loss)	234,728	809,649	(574,921)
Income (Loss) Before Taxes	397,358	985,588	(588,230)
Income Taxes	18,420	10,826	7,594
Net Income (Loss)	378,938	974,762	(595,824)
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	20,876	3,121	17,755
Net Income (Loss) Attributable to Noncontrolling Interests	196,158	611,288	(415,130)
Net Income (Loss) Attributable to KKR & Co. L.P.	161,904	360,353	(198,449)
Less: Net Income Attributable to Series A Preferred Unitholders	5,822	5,822	—
Less: Net Income Attributable to Series B Preferred Unitholders	2,519	2,379	140
Net Income (Loss) Attributable to KKR & Co. L.P. Common Unitholders	\$153,563	\$352,152	\$(198,589)

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Fees and Other

For the three months ended September 30, 2017 and 2016, fees and other consisted of the following:

	Three Months Ended		Change
	September 30, 2017	September 30, 2016	
Management Fees	\$ 178,942	\$ 152,491	\$ 26,451
Transaction Fees	181,280	113,056	68,224
Monitoring Fees	41,848	23,367	18,481
Fee Credits	(70,641)	(46,975)	(23,666)
Carried Interest	337,459	414,864	(77,405)
Incentive Fees	2,519	3,800	(1,281)
Oil and Gas Revenue	12,441	16,191	(3,750)
Consulting Fees	9,029	10,262	(1,233)
Total Fees and Other	\$ 692,877	\$ 687,056	\$ 5,821

Management fees, transaction fees, monitoring fees and fee credits all increased in the three months ended September 30, 2017 compared to the three months ended September 30, 2016. For a more detailed discussion of the factors that affected our management fees, transaction fees, monitoring fees and fee credits during the period, see “—Segment Analysis.”

The decrease in carried interest earned during the three months ended September 30, 2017 was due primarily to an overall lower level of appreciation in the value of our private equity portfolio as compared to the prior period. For a more detailed discussion of the factors that affected our Private Markets and Public Markets carried interest during the period, see “—Segment Analysis -- Private Markets -- Segment Revenues -- Performance Income” and “—Segment Analysis -- Public Markets -- Segment Revenues -- Performance Income.”

Compensation and Benefits Expenses

The increase was primarily due to increased cash compensation and benefits as compared to the prior period as well as increased equity-based compensation relating to KKR Holdings Units. Partially offsetting this increase was a decrease in carry pool allocations reflecting a lower level of appreciation in the value of our private equity portfolio during the three months ended September 30, 2017 compared to the three months ended September 30, 2016.

General Administrative and Other Expenses

The increase was primarily due to an increase in (i) expenses that are creditable to our investment funds and (ii) professional fees and other expenses incurred as compared to the prior period. These increases were partially offset by (i) the write off of intangible assets during the three months ended September 30, 2016 in connection with the termination of management contracts for certain credit funds that were wound down while no such charge was incurred during the current period and (ii) a decrease in depreciation, depletion and amortization of our consolidated oil and gas producing entities primarily caused by a lower cost basis due to previously recorded impairments, resulting in a lower unit of production depletion rate compared to the prior period.

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Net Gains (Losses) from Investment Activities

The following is a summary of net gains (losses) from investment activities:

	Three Months Ended	
	September 30,	
	2017	2016
	(\$ in thousands)	
Private Equity Investments	\$ 151,782	\$ 209,855
Credit & Other Investments	(11,064)	(6,689)
Investments of Consolidated CFE's	(39,892)	21,352
Real Assets Investments	80,696	99,503
Debt Obligations	20,959	174,625
Other Net Gains (Losses) from Investment Activities	(93,702)	236,498
Net Gains (Losses) from Investment Activities	\$ 108,779	\$ 735,144

The net gains from investment activities for the three months ended September 30, 2017 were comprised of net unrealized gains of \$156.2 million and net realized losses of \$(47.4) million. For the three months ended September 30, 2017, net unrealized gains were driven primarily by (i) mark-to-market gains in certain consolidated entities, the most significant of which were unrealized gains in The Hut Group (retail sector) and (ii) the reversal of previously recognized unrealized losses relating to the sale of investments held by consolidated CLOs. Partially offsetting these unrealized gains were unrealized losses, the most significant of which were unrealized losses relating to (i) the reversal of unrealized gains on the partial sale of First Data Corporation (NYSE: FDC), PRA Health Sciences, Inc. (NASDAQ: PRAH) and US Foods Holding Corp. (NYSE: USFD), and (ii) losses on alternative credit assets held in our consolidated special situations funds and held directly by KKR. For the three months ended September 30, 2017, net realized losses were comprised primarily of realized losses on (i) the sale of investments held by consolidated CLOs and (ii) losses on alternative credit assets in our consolidated special situations funds and other consolidated credit funds. Partially offsetting these realized losses were realized gains, the most significant of which were realized gains on the partial sale of PRA Health Sciences, Inc., First Data Corporation and US Foods Holding Corp. For a discussion of other factors that affected KKR's investment income, see "--Segment Analysis."

The net gains from investment activities for the three months ended September 30, 2016 were comprised of net realized gains of \$288.6 million and net unrealized gains of \$446.5 million. For the three months ended September 30, 2016, net realized gains were comprised primarily of the net impact of (i) realized gains on sales of private equity investments held directly by KKR, including the partial sales of Walgreens Boots Alliance, Inc. (NASDAQ: WBA) and Zimmer Biomet Holdings, Inc. (NYSE: ZBH) and (ii) realized gains on debt held at consolidated CLOs. For the three months ended September 30, 2016, net unrealized gains were driven primarily by (i) mark-to-market gains in our private equity portfolio held directly by KKR which includes unrealized gains in First Data Corporation and (ii) mark-to-market gains in assets in our consolidated special situations and real assets funds. These unrealized gains are partially offset by the reversal of unrealized gains on the partial sales of Walgreens Boots Alliance, Inc. and Zimmer Biomet Holdings, Inc.

Dividend Income

During the three months ended September 30, 2017, the most significant dividends received included \$6.7 million from real estate, credit and other investments held directly by KKR, \$5.4 million from KFN, and \$4.8 million from our consolidated real estate funds. During the three months ended September 30, 2016, the most significant dividends received included \$36.5 million from our consolidated special situations funds, \$17.8 million from credit and real estate investments held directly by KKR and \$10.4 million from our consolidated real estate funds. Significant

dividends from portfolio companies are generally not recurring quarterly dividends, and while they may occur in the future, their size and frequency are variable. For a discussion of other factors that affected KKR's dividend income, see "--Segment Analysis."

Interest Income

The increase in interest income was primarily due to a higher level of interest earned related to (i) an increase in the amount of investments held by KKR Real Estate Finance Trust Inc., our real estate investment trust or REIT, compared to the prior period, (ii) an increase in the amount of investments held at our India debt financing company, (iii) an increase in the amount of investments in our consolidated special situations funds and (iv) the impact of the consolidation of three additional CLOs subsequent to the three months ended September 30, 2016. These increases were partially offset by a decrease in interest

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income at KFN primarily due to a smaller portfolio generating recurring income. For a discussion of other factors that affected KKR's interest income, see "--Segment Analysis."

Interest Expense

The decrease in interest expense was primarily due to interest expense associated with certain notes issued by consolidated CLOs during the three months ended September 30, 2016 being called for redemption. Third party CLO subordinated note holders receive the residual interest after all other payments have been made and as a result of a paydown made in August 2016, KKR recorded interest expense of \$59.9 million and an incremental \$8.7 million of accelerated accretion of debt discounts during the three months ended September 30, 2016. This decrease was partially offset by an increase in interest expense primarily due to (i) increased borrowings at our India debt financing company and (ii) the impact of the consolidation of three additional CLOs subsequent to the three months ended September 30, 2016. For a discussion of other factors that affected KKR's interest expense, see "--Segment Analysis."

Income (Loss) Before Taxes

The decrease in income (loss) before taxes was due primarily to a lower level of net gains from investment activities as described above.

Income Taxes

The increase in income taxes is due primarily to a higher level of fees earned by our management companies and capital markets companies, partially offset by a lower level of carried interest gains accrued by certain general partner entities subject to corporate income tax during the three months ended September 30, 2017 as compared to the prior period.

Net Income (Loss) Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the three months ended September 30, 2017 relates primarily to net income attributable to KKR Holdings L.P. representing its ownership interests in the KKR Group Partnerships as well as third party limited partner interests in those investment funds that we consolidate. The decrease from the prior period is due primarily to a lower level of income recorded by certain consolidated fund entities that is attributable to third party limited partners as well as lower amounts attributed to KKR Holdings L.P. in connection with a lower level of income as compared to the prior period.

Net Income (Loss) Attributable to KKR & Co. L.P.

The decrease for the three months ended September 30, 2017, was due primarily to a lower level of investment and carried interest gains in the current period as compared to the prior period.

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Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

	Nine Months Ended		Change
	September 30, 2017	September 30, 2016	
	(\$ in thousands)		
Revenues			
Fees and Other	\$2,340,617	\$1,426,618	\$913,999
Expenses			
Compensation and Benefits	1,234,317	780,062	454,255
Occupancy and Related Charges	44,150	49,159	(5,009)
General, Administrative and Other	421,522	413,437	8,085
Total Expenses	1,699,989	1,242,658	457,331
Investment Income (Loss)			
Net Gains (Losses) from Investment Activities	1,085,655	9,089	1,076,566
Dividend Income	100,144	167,987	(67,843)
Interest Income	893,832	753,194	140,638
Interest Expense	(597,403)	(607,812)	10,409
Total Investment Income (Loss)	1,482,228	322,458	1,159,770
Income (Loss) Before Taxes	2,122,856	506,418	1,616,438
Income Taxes	77,500	18,761	58,739
Net Income (Loss)	2,045,356	487,657	1,557,699
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	64,196	4,616	59,580
Net Income (Loss) Attributable to Noncontrolling Interests	1,137,585	353,044	784,541
Net Income (Loss) Attributable to KKR & Co. L.P.	843,575	129,997	713,578
Less: Net Income Attributable to Series A Preferred Unitholders	17,466	11,515	5,951
Less: Net Income Attributable to Series B Preferred Unitholders	7,557	2,379	5,178
Net Income (Loss) Attributable to KKR & Co. L.P. Common Unitholders	\$818,552	\$116,103	\$702,449

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Fees and Other

For the nine months ended September 30, 2017 and 2016, fees and other consisted of the following:

	Nine Months Ended		Change
	September 30, 2017	September 30, 2016	
Management Fees	\$517,393	\$468,390	\$49,003
Transaction Fees	581,410	277,776	303,634
Monitoring Fees	145,203	99,388	45,815
Fee Credits	(207,396)	(106,506)	(100,890)
Carried Interest	1,224,235	602,695	621,540
Incentive Fees	3,637	6,045	(2,408)
Oil and Gas Revenue	47,096	47,977	(881)
Consulting Fees	29,039	30,853	(1,814)
Total Fees and Other	\$2,340,617	\$1,426,618	\$913,999

Management fees, transaction fees, monitoring fees and fee credits all increased in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. For a more detailed discussion of the factors that affected our management fees, transaction fees, monitoring fees and fee credits during the period, see “—Segment Analysis.”

The increase in carried interest gains earned during the nine months ended September 30, 2017 was due primarily to an overall higher level of appreciation in the value of our private equity and credit portfolios. For a more detailed discussion of the factors that affected our Private Markets and Public Markets carried interest during the period, see “—Segment Analysis -- Private Markets -- Segment Revenues -- Performance Income and —Segment Analysis -- Public Markets -- Segment Revenues -- Performance Income.”

Compensation and Benefits Expenses

The increase was primarily due to (i) a higher level of carry pool allocations reflecting higher appreciation in the value of our private equity and credit portfolios, (ii) an increase in cash compensation and benefits and (iii) an increase in equity-based compensation relating to KKR Holdings units during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

General Administrative and Other Expenses

The increase was primarily due to (i) an increase in placement fees incurred in connection with capital raising activity, the most significant of which relates to Asia Fund III and Lending Partners III and (ii) an increase in expenses that are creditable to investment funds. These increases were partially offset by (i) a lower level of financing costs incurred relating to debt at new consolidated CLOs for which the fair value option has been elected, (ii) the write off of intangible assets during the three months ended September 30, 2016 in connection with the termination of management contracts for certain credit funds that were wound down while no such charge was incurred during the current period and (iii) a decrease in depreciation, depletion and amortization of our consolidated oil and gas producing entities primarily caused by a lower cost basis due to previously recorded impairments, resulting in a lower unit of production depletion rate compared to the prior period.

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Net Gains (Losses) from Investment Activities

The following is a summary of net gains (losses) from investment activities:

	Nine Months Ended	
	September 30,	
	2017	2016
	(\$ in thousands)	
Private Equity Investments	\$574,884	\$(42,037)
Credit & Other Investments	107,354	(389,020)
Investments of Consolidated CFE's	(16,725)	) 307,597
Real Assets Investments	199,400	108,085
Debt Obligations	(7,190)	) (167,566)
Other Net Gains (Losses) from Investment Activities	227,932	192,030
Net Gains (Losses) from Investment Activities	\$1,085,655	\$9,089

The net gains from investment activities for the nine months ended September 30, 2017 were comprised of net unrealized gains of \$1,088.3 million and net realized losses of \$(2.7) million. For the nine months ended September 30, 2017, net unrealized gains were driven primarily by (i) mark-to-market gains in our private equity portfolio held directly by KKR, the most significant of which were unrealized gains in First Data Corporation, (ii) mark-to-market gains in certain consolidated entities, the most significant of which were unrealized gains in The Hut Group, (iii) mark-to-market gains on alternative credit assets in our consolidated special situations funds and KFN and (iv) mark-market gains and the reversal of unrealized losses on the sale of investments in our consolidated energy funds and infrastructure portfolios held directly by KKR. Offsetting these unrealized gains were unrealized losses, the most significant of which were unrealized losses relating to (i) the reversal of unrealized gains on the final sales of Galenica AG (VTX: GALN) and HCA Holdings, Inc. (NYSE: HCA) and the partial sale of US Foods Holding Corp. For the nine months ended September 30, 2017, realized losses were comprised primarily of realized losses related to (i) the sale of investments in our energy portfolio held directly by KKR, (ii) alternative credit assets in our consolidated special situations funds and (iii) the sale of investments held by our consolidated CLOs. Partially offsetting these realized losses were realized gains on sales of private equity investments held directly by KKR, including the final sale of Galenica AG and HCA Holdings, Inc. and partial sales of First Data Corporation and US Foods Holding Corp. For a discussion of other factors that affected KKR's investment income, see "--Segment Analysis."

The net gains from investment activities for the nine months ended September 30, 2016 were comprised of net realized gains of \$354.1 million and net unrealized losses of \$(345.0) million. For the nine months ended September 30, 2016, net realized gains were comprised primarily of the net impact of (i) realized gains on sales of private equity investments held directly by KKR, including the partial sales of Walgreens Boots Alliance, Inc., Zimmer Biomet Holdings, Inc. and HCA Holdings, Inc., (ii) realized losses on assets held at consolidated CLOs and (iii) realized gains on debt held at consolidated CLOs. For the nine months ended September 30, 2016, net unrealized losses were driven primarily by (i) mark-to-market losses in our private equity portfolio held directly by KKR including unrealized losses in First Data Corporation, (ii) mark-to-market losses on assets in our consolidated special situations funds, (iii) mark-to-market losses on debt held through consolidated CMBS and (iv) the reversal of unrealized gains on the partial sales of Walgreens Boots Alliance, Inc., Zimmer Biomet Holdings, Inc. and HCA Holdings, Inc., as well as the reversal of unrealized gains on debt realizations at our consolidated CLOs. Partially offsetting these unrealized losses were unrealized gains, the most significant of which were unrealized gains relating to investments held through consolidated CMBS structures and reversals of unrealized losses on asset realizations in our consolidated CLOs.

Dividend Income

During the nine months ended September 30, 2017, the most significant dividends received included \$45.5 million from our consolidated special situations funds, \$18.1 million from investments across multiple strategies held directly by KKR, \$16.0 million from our consolidated real estate funds and \$11.1 million from KFN. During the nine months ended September 30, 2016, the most significant dividends received included \$49.0 million from our consolidated special situations funds and dividends from US Foods Holding Corp. of \$23.4 million, Sedgwick Claims Management Services (financial services sector) of \$12.7 million and PRA Health Sciences, Inc. of \$4.1 million. Significant dividends from portfolio companies are generally not recurring quarterly dividends, and while they may occur in the future, their size and frequency are variable. For a discussion of other factors that affected KKR's dividend income, see "--Segment Analysis."

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Interest Income

The increase in interest income was primarily due to a higher level of interest earned related to (i) an increase in the amount of investments held by our REIT compared to the prior period, (ii) an increase in the amount of investments held at our India debt financing company, (iii) an increase in the amount of investments in our consolidated special situations funds and (iv) the impact of the consolidation of three additional CLOs subsequent to the nine months ended September 30, 2016. These increases were partially offset by a decrease in interest income at KFN associated with the paydown of CLO 2007-1 in the second quarter of 2016. For a discussion of other factors that affected KKR's interest income, see "--Segment Analysis."

Interest Expense

The decrease in interest expense was primarily due to lower interest expense associated with certain notes issued by consolidated CLOs during the three months ended September 30, 2016 being called for redemption. Third party CLO subordinated note holders receive the residual interest after all other payments have been made and as a result of a paydown made in August 2016, KKR recorded interest expense of \$59.9 million and an incremental \$8.7 million of accelerated accretion of debt discounts during the three months ended September 30, 2016. The paydown of CLO 2007-1 in the second quarter of 2016 also contributed to the decrease. These decreases were partially offset by an increase in interest expense associated with (i) increased CMBS issuances by our REIT, (ii) increased borrowings at our India debt financing company and (iii) the impact of the consolidation of three additional CLOs subsequent to the nine months ended September 30, 2016. For a discussion of other factors that affected KKR's interest expense, see "--Segment Analysis."

Income (Loss) Before Taxes

The increase in income (loss) before taxes was due primarily to higher carried interest gains accrued in our private equity and credit portfolios and higher net gains from investment activities, partially offset by an increase in expenses, in each case as described above.

Income Taxes

The increase in income taxes is due primarily to a higher level of fees earned by our management companies and capital markets companies and carried interest gains accrued by certain general partner entities subject to corporate income tax during the nine months ended September 30, 2017 compared to the prior period.

Net Income (Loss) Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the nine months ended September 30, 2017 relates primarily to net income attributable to KKR Holdings L.P. representing its ownership interests in the KKR Group Partnerships as well as third party limited partner interests in those investment funds that we consolidate. The increase from the prior period is due primarily to a higher level of income recorded by certain consolidated fund entities that is attributable to third party limited partners as well as higher amounts attributed to KKR Holdings L.P. in connection with higher income recognized for the nine months ended September 30, 2017 as compared to the prior period.

Net Income (Loss) Attributable to KKR & Co. L.P.

The increase in Net income attributable to KKR & Co. L.P. was primarily due to higher carried interest gains and higher net investment gains from investment activities in the current period as compared to the prior period and to a lesser extent, increased fee income.

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Condensed Consolidated Statements of Financial Condition

The following table provides the condensed consolidated statements of financial condition on a GAAP Basis as of September 30, 2017 and December 31, 2016.

(Amounts in thousands, except common unit and per common unit amounts)

	As of September 30, 2017	As of December 31, 2016
Assets		
Cash and Cash Equivalents	\$ 2,436,566	\$ 2,508,902
Investments	37,251,837	31,409,765
Other	4,617,236	5,084,230
Total Assets	44,305,639	39,002,897
Liabilities and Equity		
Debt Obligations	20,290,714	18,544,075
Other Liabilities	4,149,491	3,340,739
Total Liabilities	24,440,205	21,884,814
Redeemable Noncontrolling Interests	570,134	632,348
Equity		
Series A Preferred Units	332,988	332,988
Series B Preferred Units	149,566	149,566
KKR & Co. L.P. Capital - Common Unitholders	6,380,654	5,457,279
Noncontrolling Interests	12,432,092	10,545,902
Total Equity	19,295,300	16,485,735
Total Liabilities and Equity	\$ 44,305,639	\$ 39,002,897
KKR & Co. L.P. Capital Per Outstanding Common Unit - Basic	\$ 13.49	\$ 12.06

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Condensed Consolidated Statements of Cash Flows

The accompanying condensed consolidated statements of cash flows include the cash flows of our consolidated entities which include certain consolidated investment funds and CFEs notwithstanding the fact that we may hold only a minority economic interest in those funds and CFEs.

The assets of our consolidated funds and CFEs, on a gross basis, can be substantially larger than the assets of our business and, accordingly, could have a substantial effect on the cash flows reflected in our condensed consolidated statements of cash flows. The primary cash flow activities of our consolidated funds and CFEs involve: (i) capital contributions from fund investors; (ii) using the capital of fund investors to make investments; (iii) financing certain investments with indebtedness; (iv) generating cash flows through the realization of investments; and (v) distributing cash flows from the realization of investments to fund investors. Because our consolidated funds and CFEs are treated as investment companies for accounting purposes, certain of these cash flow amounts are included in our cash flows from operations.

Net Cash Provided (Used) by Operating Activities

Our net cash provided (used) by operating activities was \$(2.2) billion and \$(0.6) billion during the nine months ended September 30, 2017 and 2016, respectively. These amounts primarily included: (i) proceeds from sales of investments net of purchases of investments of \$(3.5) billion and \$(0.8) billion during the nine months ended September 30, 2017 and 2016, respectively; (ii) net realized gains (losses) on investments of \$(2.7) million and \$354.1 million during the nine months ended September 30, 2017 and 2016, respectively; (iii) change in unrealized gains (losses) on investments of \$1,088.3 million and \$(345.0) million during the nine months ended September 30, 2017 and 2016, respectively; and (iv) carried interest allocated as a result of changes in fund fair value of \$1,224.2 million and \$602.7 million during the nine months ended September 30, 2017 and 2016, respectively. Investment funds are, for GAAP purposes, investment companies and reflect their investments and other financial instruments at fair value.

Net Cash Provided (Used) by Investing Activities

Our net cash provided (used) by investing activities was \$96.1 million and \$23.2 million during the nine months ended September 30, 2017 and 2016, respectively. Our investing activities included: (i) a change in restricted cash and cash equivalents (that primarily funds collateral requirements) of \$168.0 million and \$33.0 million during the nine months ended September 30, 2017 and 2016, respectively; (ii) the purchase of fixed assets of \$(70.8) million and \$(8.2) million during the nine months ended September 30, 2017 and 2016, respectively; and (iii) development of oil and natural gas properties of \$(1.0) million and \$(1.6) million for the nine months ended September 30, 2017 and 2016, respectively.

Net Cash Provided (Used) by Financing Activities

Our net cash provided (used) by financing activities was \$2.1 billion and \$1.7 billion during the nine months ended September 30, 2017 and 2016, respectively. Our financing activities primarily included: (i) distributions to, net of contributions by, our noncontrolling and redeemable noncontrolling interests of \$1.1 billion and \$0.8 billion during the nine months ended September 30, 2017 and 2016, respectively; (ii) proceeds received net of repayment of debt obligations of \$1.3 billion and \$1.0 billion during the nine months ended September 30, 2017 and 2016, respectively; (iii) distributions to our partners of \$(230.8) million and \$(213.5) million during the nine months ended September 30, 2017 and 2016, respectively; (iv) unit repurchases of \$(291.9) million during the nine months ended September 30, 2016; (v) issuance of Preferred Units of \$482.6 million during the nine months ended September 30, 2016; and (vi) Preferred Units distributions of \$(25.0) million and \$(13.9) million during the nine months ended September 30, 2017 and 2016.

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Segment Analysis

The following is a discussion of the results of our four reportable business segments for the three and nine months ended September 30, 2017 and 2016. You should read this discussion in conjunction with the information included under “—Basis of Financial Presentation—Segment Operating and Performance Measures” and the condensed consolidated financial statements and related notes included elsewhere in this report.

Expense Allocations

Certain expenses are allocated among our operating segments. Specifically, as described below, (i) a portion of expenses, except for broken deal expenses, originating in our Private Markets, Public Markets and Capital Markets segments are reflected in the Principal Activities segment and (ii) corporate expenses are allocated across all segments.

Expenses Allocated to Principal Activities

KKR allocates certain expenses to its Principal Activities segment. The Principal Activities segments incurs its own direct costs, and an allocation from the other segments is also made to reflect the estimated amount of costs that are necessary to operate our Principal Activities segment, which are incremental to those costs incurred directly by the Principal Activities segment. These allocable expenses consist of a portion of our cash compensation and benefits, occupancy and related charges and other operating expenses that are initially recognized within our Private Markets, Public Markets and Capital Markets segments. Consistent with prior years, the total amount of expenses (other than its direct costs) that is allocated to Principal Activities is based on the proportion of revenue earned by Principal Activities, relative to other operating segments revenue, over the preceding four calendar years. Beginning in 2017, however, KKR has determined that this allocation percentage will not be less than the allocation percentage calculated using the cumulative amount of such revenues since 2009 (the year we completed the KPE transaction). For 2017, KKR determined that this allocation percentage is 25.7%. This allocation percentage is expected to be updated annually or more frequently if there are material changes to our business.

Below is a summary of the allocation to Principal Activities, relative to other operating segments, for the 2017 and 2016 periods.

2017 Allocation: 25.7%, based on cumulative revenues earned since 2009

2016 Allocation: 22.6%, based on revenues earned in 2015, 2014, 2013 and 2012

The 2016 allocation to Principal Activities was based on revenues earned by Principal Activities, relative to other operating segments revenue, over the preceding four calendar years. Had the allocation for 2016 been based on cumulative revenues earned by Principal Activities since 2009, consistent with our allocation methodology adopted in 2017, the expense allocation to Principal Activities would have been 28.7% and would have had the following impact on Economic Net Income across each of our reporting segments:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Private Markets	\$ 4,856	\$ 14,515
Public Markets	3,400	10,103

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Capital Markets	739	2,188
Principal Activities	(8,995)	(26,806)
Total Economic Net Income	\$ —	\$ —

Once the total amount of expense to be allocated to the Principal Activities segment is estimated for each reporting period, the amount of this expense will be allocated from the Private Markets, Public Markets and Capital Markets segments based on the proportion of headcount in each of these three segments.

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Allocations of Corporate Expenses

Corporate expenses are allocated to each of the Private Markets, Public Markets, Capital Markets and Principal Activities segments based on the proportion of revenues earned by each segment over the preceding four calendar years. However, to the extent that expenses allocated to Principal Activities, as described above, is based on the cumulative amount of such revenues since 2009, corporate expenses will be allocated in the same manner.

Below is a summary of the allocations percentages used for corporate expenses to each of our operating segments for the 2017 and 2016 periods.

Segment	Expense Allocation	
	2017	2016
Private Markets	59.6 %	61.6 %
Public Markets	9.0 %	10.1 %
Capital Markets	5.7 %	5.7 %
Principal Activities	25.7 %	22.6 %
Total Reportable Segments	100.0%	100.0 %

Allocation basis	Revenue earned	
	Cumulative revenue since 2009	in 2015, 2014, 2013 & 2012

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Private Markets Segment

The following tables set forth information regarding the results of operations and certain key operating metrics for our Private Markets segment for the three and nine months ended September 30, 2017 and 2016.

Three months ended September 30, 2017 compared to three months ended September 30, 2016

	Three Months Ended		Change
	September 30, 2017	September 30, 2016	
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$ 153,841	\$ 117,795	\$ 36,046
Monitoring Fees	14,342	11,091	3,251
Transaction Fees	82,258	53,223	29,035
Fee Credits	(59,854)	(37,127)	(22,727)
Total Management, Monitoring and Transaction Fees, Net	190,587	144,982	45,605
Performance Income			
Realized Incentive Fees	—	—	—
Realized Carried Interest	419,438	350,469	68,969
Unrealized Carried Interest	(96,571)	53,339	(149,910)
Total Performance Income	322,867	403,808	(80,941)
Investment Income (Loss)			
Net Realized Gains (Losses)	—	—	—
Net Unrealized Gains (Losses)	—	—	—
Total Realized and Unrealized	—	—	—
Interest Income and Dividends	—	—	—
Interest Expense	—	—	—
Net Interest and Dividends	—	—	—
Total Investment Income (Loss)	—	—	—
Total Segment Revenues	513,454	548,790	(35,336)
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	63,482	47,858	15,624
Realized Performance Income Compensation	176,075	157,688	18,387
Unrealized Performance Income Compensation	(36,379)	22,588	(58,967)
Total Compensation and Benefits	203,178	228,134	(24,956)
Occupancy and related charges	8,537	9,248	(711)
Other operating expenses	42,376	32,031	10,345
Total Segment Expenses	254,091	269,413	(15,322)
Income (Loss) attributable to noncontrolling interests	—	—	—
Economic Net Income (Loss)	\$ 259,363	\$ 279,377	\$ (20,014)

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Assets Under Management	\$87,609,800	\$75,181,600	\$12,428,200
Fee Paying Assets Under Management	\$61,706,500	\$44,010,300	\$17,696,200
Capital Invested	\$2,972,300	\$2,370,600	\$601,700
Uncalled Commitments	\$39,421,900	\$31,839,100	\$7,582,800

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Segment Revenues

Management, Monitoring and Transaction Fees, Net

The net increase was primarily due to an increase in management fees and transaction fees. The increase in management fees was primarily due to (i) Americas Fund XII entering its investment period in the first quarter of 2017, in which it earns management fees on a larger pool of capital than its predecessor fund North America Fund XI, which entered its post investment period, (ii) Asian Fund III entering its investment period in the second quarter of 2017, in which it earns management fees on a larger pool of capital than its predecessor fund Asian Fund II, which entered its post investment period and (iii) new capital raised in our Health Care Strategic Growth Fund. This net increase was partially offset by decreases due to (i) North America Fund XI and Asian Fund II entering their post investment periods, during which they earn fees at a lower rate and based on invested capital rather than committed capital, and (ii) lower invested capital as a result of realizations primarily in our 2006 Fund, Asian Fund and China Growth Fund. As investments held in our funds that pay management fees based on invested capital are sold, our management fees are expected to decline unless offset by new fee-paying capital raised. The increase in transaction fees was primarily attributable to an increase in both the number and size of transaction fee-generating investments. During the three months ended September 30, 2017, there were 14 transaction fee-generating investments that paid an average fee of \$5.9 million compared to 13 transaction fee-generating investments paying an average fee of \$4.1 million during the three months ended September 30, 2016. The majority of these transaction fees were paid by companies located in North America. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular discussions as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The increase in fee credits is due primarily to a higher level of transaction fees. Recurring monitoring fees increased \$3.3 million, which was primarily the result of an increase in the number of portfolio companies paying fees. For the three months ended September 30, 2017 we had 50 portfolio companies paying an average monitoring fee of \$0.3 million compared to 42 portfolio companies paying an average monitoring fee of \$0.3 million for the three months ended September 30, 2016. There were no termination payments for the three months ended September 30, 2017 and 2016. These termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with the initial public offering ("IPO") and other realization activity in our private equity portfolio, and may be smaller in size and number in the future compared to current and prior periods.

Performance Income

The net decrease is attributable to a lower level of carried interest primarily reflecting a lower level of net appreciation in value of our private equity portfolio in the current period compared to the prior period.

Realized carried interest for the three months ended September 30, 2017, consisted primarily of realized gains from the sale of Capsugel (manufacturing sector) and partial sales of PRA Health Sciences, Inc. and US Foods Holding Corp.

Realized carried interest for the three months ended September 30, 2016 consisted primarily of realized gains from the sale or partial sale of Walgreens Boots Alliance, Inc., Alliance Tire Group B.V. (manufacturing sector) and Zimmer Biomet Holdings, Inc.

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The following table presents performance income by investment vehicle for the three months ended September 30, 2017 and 2016:

	Three Months Ended September 30,					
	2017			2016		
	(\$ in thousands)					
	Realized	Unrealized	Total	Realized	Unrealized	Total
	Carried	Carried	Carried	Carried	Carried	Carried
	Interest	Interest	Interest	Interest	Interest	Interest
North America Fund XI	\$90,394	\$48,982	\$139,376	\$14,845	\$139,705	\$154,550
Co-Investment Vehicles and Other	16,255	51,948	68,203	705	25,985	26,690
European Fund III	4,500	38,143	42,643	—	22,529	22,529
European Fund IV	—	24,365	24,365	—	1,339	1,339
Asian Fund II	—	21,801	21,801	—	86,365	86,365
Asian Fund	—	21,268	21,268	95,883	(71,490)	24,393
Global Infrastructure Investors II	—	7,155	7,155	—	—	—
Next Generation Technology Growth	—	5,885	5,885	—	943	943
Global Infrastructure Investors	—	3,145	3,145	16,845	(10,383)	6,462
Real Estate Partners Americas	10,365	(7,439)	2,926	—	1,970	1,970
Millennium Fund	—	2,370	2,370	—	(15,889)	(15,889)
E2 Investors	—	—	—	—	(234)	(234)
European Fund	—	—	—	—	(2,102)	(2,102)
European Fund II	2,142	(2,146)	(4)	63,721	(62,304)	1,417
2006 Fund	295,782	(301,978)	(6,196)	155,612	(64,174)	91,438
China Growth Fund	—	(7,597)	(7,597)	2,858	5,265	8,123
Management Fee Refunds	—	(2,473)	(2,473)	—	(4,186)	(4,186)
Total ⁽¹⁾	\$419,438	\$(96,571)	\$322,867	\$350,469	\$53,339	\$403,808

⁽¹⁾ The above table excludes any funds for which there was no carried interest during either of the periods presented.

Unrealized carried interest reflects the difference between total carried interest and realized carried interest. The recognition of realized carried interest results in the reversal of accumulated unrealized carried interest, generally resulting in minimal impact on total performance income. Additionally, because unrealized carried interest can be reversed upon a realization event, in periods where there is significant realized carried interest, unrealized carried interest can be negative even in periods of portfolio appreciation.

For the three months ended September 30, 2017, the value of our private equity investment portfolio increased 3.9%. This was comprised of a 2.6% increase in the share prices of various publicly held or publicly indexed investments and a 4.6% increase in value of our privately held investments. Additionally, our infrastructure investment portfolio, which is comprised predominately of private investments, increased 6.6%. The most significant increases in share prices of various publicly held or publicly indexed investments were gains in Gardner Denver Holdings, Inc. (NYSE: GDI), China International Capital Corporation Limited (HK: 3908) and Pets At Home Group Plc (LSE: PETS). These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were losses in Laureate Education, Inc. (NASDAQ: LAUR), First Data Corporation and Beijing Capital Grand Limited (HK: 1329). Our privately held investments contributed the remainder of the change in value, the most significant of which were gains relating to Internet Brands, Inc. (technology sector), Colonial Pipeline Company (infrastructure sector) and United Group (telecom sector). The unrealized gains on our privately held investments were partially offset by unrealized losses relating primarily to Optiv Inc. (technology sector), Academy Ltd. (retail sector) and Sundrop Farms Holding Ltd. (agriculture sector). The increased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) an increase in the value of market comparables and (ii) individual company performance. The decreased valuations of individual companies in our privately held

investments, in the aggregate, generally related to (i) individual company performance or, in certain cases, an unfavorable business outlook and (ii) a decrease in the value of market comparables.

Subsequent to September 30, 2017, realization activity such as dividends and agreements to sell, including partial sales and secondary sales, are expected, with respect to certain private equity portfolio companies, the most significant of which are

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Alliant Insurance Services (financial services sector), Gland Pharma (manufacturing sector), Visma AS (technology sector) and Groupe SMCP S.A.S. (retail sector). These transactions have been consummated subsequent to September 30, 2017, and represent distributable earnings of approximately \$130 million. Some or all of these transactions are subject to the satisfaction of closing conditions prior to their completion, and there can be no assurance if or when any of these transactions will be completed.

For the three months ended September 30, 2016, the value of our private equity investment portfolio increased 5.8%. This was comprised of a 7.0% increase in the share prices of various publicly held or publicly indexed investments and a 5.1% increase in the value of our privately held investments. The most significant increase in share prices of various publicly held or publicly indexed investments were gains in First Data Corporation, PRA Health Sciences, Inc. and Qingdao Haier Co., Ltd. (CH: 600690). These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were Walgreens Boots Alliance, Inc., US Foods Holding Corp. and Fujian Sunner Development Co. Ltd. (SZ:002299). Our privately held investments contributed the remainder of the change in value, the most significant of which were gains relating to Sedgwick Claims Management Services (financial services sector), Panasonic Healthcare Co., Ltd. (healthcare sector), and GenesisCare (healthcare sector). The unrealized gains on our privately held investments were partially offset by unrealized losses the most significant of which were Aricent Inc. (technology sector), Crosby and Acco Material Handling Solutions (manufacturing sector) and OEG Management Partners (energy sector). The increased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) in the case of Sedgwick Claims Management Services and GenesisCare, valuations that reflect agreements to sell all or a portion of these investments, (ii) an increase in the value of market comparables and (iii) individual company performance. The decreased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) individual company performance or, in certain cases, an unfavorable business outlook and (ii) a decrease in the value of market comparables.

Segment Expenses

Compensation and Benefits

The net decrease was due primarily to lower performance income compensation resulting from a lower level of carried interest gains in our private equity portfolio in the current period as described above as well as a greater amount of compensation and benefits expense allocated to Principal Activities as a result of an increase in the proportion of revenue earned by Principal Activities relative to other operating segments. These decreases were partially offset by increased cash compensation and benefits.

Occupancy and Other Operating Expenses

The increase is primarily due to an increase in professional fees and expenses that are creditable to our investment funds which include expenses for unconsummated transactions, also known as broken-deal expenses. Partially offsetting these increases was a decrease relating to a greater amount of other operating expenses allocated to Principal Activities as a result of an increase in the proportion of revenue earned by Principal Activities relative to other operating segments.

Economic Net Income (Loss)

The decrease was primarily due to lower levels of performance income gains in the current period compared to the prior period, partially offset by higher management and transaction fees and a decrease in compensation and benefits in the current period.

Assets Under Management

The following table reflects the changes in our Private Markets AUM from June 30, 2017 to September 30, 2017:

	(\$ in thousands)
June 30, 2017	\$ 84,984,000
New Capital Raised	4,287,200
Distributions	(3,798,300)
Change in Value	2,136,900
September 30, 2017	\$ 87,609,800

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AUM for the Private Markets segment was \$87.6 billion at September 30, 2017, an increase of \$2.6 billion, compared to \$85.0 billion at June 30, 2017. The increase was primarily attributable to new capital raised primarily in two new strategic investor partnerships and our Real Estate Credit Opportunity Partners fund, and to a lesser extent, an increase in the value of our Private Markets portfolio. Our strategic investor partnerships include separately managed accounts that provide for investments to be made in multiple funds and across investment strategies and for the reinvestment or recycling of investment proceeds. Those strategic investor partnerships also generally provide for the netting of investment returns over negotiated periods of time among funds and other investments, which may give rise to the clawback of previously recognized carried interest or incentive fees. These increases were offset by distributions to Private Markets fund investors primarily as a result of realizations, most notably in our 2006 Fund, North America Fund XI and certain carry co-investment vehicles.

The increase in the value of our Private Markets portfolio was driven primarily by net gains of \$0.8 billion in our North America Fund XI and \$0.3 billion in each of our European Fund III and European Fund IV. The drivers of the overall change in value for Private Markets were consistent with those noted in the Performance Income commentary above. See "-- Private Markets - Segment Revenues - Performance Income."

Certain investments included in our AUM are denominated in currencies other than the U.S. dollar. Those investments expose our AUM to the risk that the value of the investments will be affected by changes in exchange rates between the currency in which the investments are denominated and the currency in which the investments are made. Our policy is to minimize these risks in certain cases by employing hedging techniques, including using foreign currency options and foreign exchange forward contracts to reduce exposure to changes in exchange rates when a meaningful amount of capital has been invested in currencies other than the currencies in which the investments are denominated. We do not, however, hedge our currency exposure in all currencies or all investments. See "-Quantitative and Qualitative Disclosures about Market Risk -- Exchange Rate Risk" and "Risk Factors-Risks Related to the Assets We Manage--We make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States" of our Annual Report on Form 10-K for the year ended December 31, 2016.

Fee-Paying Assets Under Management

The following table reflects the changes in our Private Markets FPAUM from June 30, 2017 to September 30, 2017:

	(\$ in thousands)
June 30, 2017	\$ 62,008,900
New Capital Raised	1,202,900
Distributions and Other	(1,968,700)
Change in Value	463,400
September 30, 2017	\$ 61,706,500

FPAUM in our Private Markets segment was \$61.7 billion at September 30, 2017, a decrease of \$0.3 billion, compared to \$62.0 billion at June 30, 2017. The decrease was due primarily to distributions primarily related to realizations in our 2006 Fund and North America Fund XI. These decreases were partially offset by new capital raised in our Americas Fund XII (relating to one of our strategic investor partnerships) and Health Care Strategic Growth Fund, and capital deployed in our North America Fund XI. Uncalled capital commitments from investment funds from which KKR is currently not earning management fees amounted to approximately 9.0 billion at September 30, 2017, which includes capital commitments reserved for follow-on investments for funds that have completed their investment periods. This capital will generally begin to earn management fees upon deployment of the capital or upon the commencement of the fund's investment period. The average annual management fee rate associated with this capital is approximately 0.9%. We will not begin earning fees on this capital until it is deployed or the related investment period commences, neither of which is guaranteed. If and when such management fees are earned, which

will occur over an extended period of time, a portion of existing FPAUM may cease paying fees or pay lower fees, thus offsetting a portion of any new management fees earned.

Capital Invested

The increase was driven primarily by a \$0.4 billion increase in capital invested in our private equity platform and a \$0.2 billion increase in capital invested in our real assets and other platforms. Generally, the portfolio companies acquired through our private equity funds have higher transaction values and result in higher capital invested relative to transactions in our real assets funds. The number of large private equity investments made in any quarter is volatile and, consequently, a significant amount of capital invested in one quarter or a few quarters may not be indicative of a similar level of capital deployment in future quarters. During the three months ended September 30, 2017, 64% of capital deployed in private equity was in

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transactions in North America, 27% was in the Asia-Pacific region, and 9% was in Europe. As of October 26, 2017, our Private Markets business had announced transactions that were subject to closing conditions which aggregated approximately \$3.1 billion. Some or all of these transactions are subject to the satisfaction of closing conditions prior to their completion, and there can be no assurance if or when any of these transactions will be completed.

Uncalled Commitments

As of September 30, 2017, our Private Markets segment had \$39.4 billion of remaining uncalled capital commitments that could be called for investments in new transactions. The increase from September 30, 2016 is due primarily to new capital raised in our Asian Fund III, two new strategic investor partnerships and Americas Fund XII, partially offset by capital called from fund investors to fund investments during the period.

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Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

	Nine Months Ended		
	September 30, September 30,		Change
	2017	2016	
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$419,606	\$ 354,376	\$65,230
Monitoring Fees	58,072	52,126	5,946
Transaction Fees	237,392	114,021	123,371
Fee Credits	(177,254	) (93,042	) (84,212
Total Management, Monitoring and Transaction Fees, Net	537,816	427,481	110,335
Performance Income			
Realized Incentive Fees	—	—	—
Realized Carried Interest	890,310	749,194	141,116
Unrealized Carried Interest	305,945	(131,386	) 437,331
Total Performance Income	1,196,255	617,808	578,447
Investment Income (Loss)			
Net Realized Gains (Losses)	—	—	—
Net Unrealized Gains (Losses)	—	—	—
Total Realized and Unrealized	—	—	—
Interest Income and Dividends	—	—	—
Interest Expense	—	—	—
Net Interest and Dividends	—	—	—
Total Investment Income (Loss)	—	—	—
Total Segment Revenues	1,734,071	1,045,289	688,782
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	183,943	142,500	41,443
Realized Performance Income Compensation	374,335	317,178	57,157
Unrealized Performance Income Compensation	126,677	(47,377	) 174,054
Total Compensation and Benefits	684,955	412,301	272,654
Occupancy and related charges	24,174	27,212	(3,038
Other operating expenses	97,255	95,166	2,089
Total Segment Expenses	806,384	534,679	271,705
Income (Loss) attributable to noncontrolling interests	—	—	—
Economic Net Income (Loss)	\$927,687	\$ 510,610	\$417,077
Assets Under Management	\$87,609,800	\$75,181,600	\$12,428,200
Fee Paying Assets Under Management	\$61,706,500	\$44,010,300	\$17,696,200
Capital Invested	\$11,079,800	\$5,475,300	\$5,604,500
Uncalled Commitments	\$39,421,900	\$31,839,100	\$7,582,800

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Segment Revenues

Management, Monitoring and Transaction Fees, Net

The net increase was primarily due to an increase in transaction fees, partially offset by a corresponding increase in fee credits and an increase in management fees. The increase in transaction fees was primarily attributable to an increase in both the number and size of transaction fee-generating investments. During the nine months ended September 30, 2017, there were 38 transaction fee-generating investments that paid an average fee of \$6.2 million compared to 33 transaction fee-generating investments paying an average fee of \$3.5 million during the nine months ended September 30, 2016. Approximately 44% of these transaction fees were paid by companies located in North America, 37% were paid from companies located in the Asia-Pacific region and 19% were paid from companies in Europe. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular discussions as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The increase in fee credits is due primarily to a higher level of transaction fees. The increase in management fees was primarily due to (i) Americas Fund XII entering its investment period in the first quarter of 2017, in which it earns management fees on a larger pool of capital than its predecessor fund North America Fund XI, which entered its post investment period, (ii) Asian Fund III entering its investment period in the second quarter of 2017, in which it earns management fees on a larger pool of capital than its predecessor fund Asian Fund II, which entered its post investment period and (iii) new capital raised in our Health Care Strategic Growth Fund. This net increase was partially offset by decreases due to (i) North America Fund XI and Asian Fund II entering their post investment periods during the first nine months of 2017, in which they earn fees at a lower rate and based on invested capital rather than committed capital, and (ii) lower invested capital as a result of realizations primarily in our 2006 Fund, China Growth Fund and Asian Fund. Recurring monitoring fees increased \$5.3 million which was primarily the result of an increase in the number of portfolio companies paying fees. For the nine months ended September 30, 2017, we had 53 portfolio companies that were paying an average monitoring fee of \$0.8 million compared with 49 portfolio companies that were paying an average monitoring fee of \$0.8 million for the nine months ended September 30, 2016. For the nine months ended September 30, 2017, we also received termination payments of \$16.0 million in connection with the IPO of Gardner Denver Holdings, Inc. compared to \$15.3 million of termination payments received in the nine months ended September 30, 2016, in connection with the IPO of US Foods Holding Corp. These termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with the IPO and other realization activity in our private equity portfolio, and may be smaller in size and number in the future compared to current and prior periods.

Performance Income

The net increase is attributable to a higher level of net carried interest gains in the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016, primarily reflecting a higher level of appreciation in the value of our private equity portfolio in the current period compared to the prior period.

Realized carried interest for the nine months ended September 30, 2017, consisted primarily of realized gains from the sale of Capsugel (manufacturing sector) and the partial sales of US Foods Holding Corp. and PRA Health Sciences, Inc.

Realized carried interest for the nine months ended September 30, 2016 consisted primarily of realized gains from the sale or partial sale of Walgreens Boots Alliance, Inc., Alliance Tire Group B.V. and HCA Holdings, Inc.

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The following table presents performance income by investment vehicle for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,					
	2017			2016		
	(\$ in thousands)					
	Realized Carried Interest	Unrealized Carried Interest	Total Carried Interest	Realized Carried Interest	Unrealized Carried Interest	Total Carried Interest
North America Fund XI	\$129,576	\$333,354	\$462,930	\$61,898	\$146,192	\$208,090
2006 Fund	511,935	(347,899)	164,036	351,115	(329,865)	21,250
Co-Investment Vehicles and Other	23,088	137,510	160,598	7,245	6,829	14,074
European Fund III	83,045	42,260	125,305	35,231	92,783	128,014
Asian Fund II	29,351	93,419	122,770	—	168,145	168,145
European Fund IV	—	68,274	68,274	—	(197)	(197)
Asian Fund	17,846	15,771	33,617	126,820	(41,251)	85,569
Global Infrastructure Investors II	—	25,453	25,453	—	(272)	(272)
Global Infrastructure Investors	14,772	9,012	23,784	16,845	7,079	23,924
Real Estate Partners Americas	12,050	(60)	11,990	—	5,035	5,035
Next Generation Technology Growth	—	8,165	8,165	—	943	943
Millennium Fund	28,266	(22,140)	6,126	59,707	(84,129)	(24,422)
European Fund	—	—	—	1,503	(4,395)	(2,892)
E2 Investors	—	(306)	(306)	—	1,328	1,328
China Growth Fund	20,130	(23,315)	(3,185)	2,858	9,845	12,703
European Fund II	20,251	(25,940)	(5,689)	85,972	(98,410)	(12,438)
Management Fee Refunds	—	(7,613)	(7,613)	—	(11,046)	(11,046)
Total ⁽¹⁾	\$890,310	\$305,945	\$1,196,255	\$749,194	\$(131,386)	\$617,808

⁽¹⁾ The above table excludes any funds for which there was no carried interest during either of the periods presented.

Unrealized carried interest reflects the difference between total carried interest and realized carried interest. The recognition of realized carried interest results in the reversal of accumulated unrealized carried interest, generally resulting in minimal impact on total performance income. Additionally, because unrealized carried interest can be reversed upon a realization event, in periods where there is significant realized carried interest, unrealized carried interest can be negative even in periods of portfolio appreciation.

For the nine months ended September 30, 2017, the value of our private equity investment portfolio increased 15.9%. This was comprised of a 24.9% increase in the share prices of various publicly held or publicly indexed investments and an 11.2% increase in value of our privately held investments. Additionally, our infrastructure investment portfolio, which is comprised predominately of private investments, increased 20.0%. The most significant increases in share prices of various publicly held or publicly indexed investments were gains in Gardner Denver Holdings, Inc., First Data Corporation and Qingdao Haier Co., Ltd. These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were losses in Fujian Sunner Development Co. Ltd., Laureate Education, Inc. and US Foods Holding Corp. Our privately held investments contributed the remainder of the change in value, the most significant of which were gains relating to Internet Brands, Inc. (technology sector), Weld North (education sector) and Colonial Pipeline Company (infrastructure sector). The unrealized gains on our privately held investments were partially offset by unrealized losses relating primarily to Academy Ltd. (retail sector), Toys R Us, Inc. (retail sector) and Santanol Pty Ltd (forestry sector). The increased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) an increase in the value of market comparables and (ii) individual company performance. The decreased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) individual company performance or, in certain cases, an

unfavorable business outlook and (ii) a decrease in the value of market comparables.

For the nine months ended September 30, 2016, the value of our private equity investment portfolio increased 8.9%. This was comprised of a 1.7% increase in the share prices of various publicly held or publicly indexed investments and a 14.5% increase in value of our privately held investments. The most significant increases in share prices of various publicly held or

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publicly indexed investments were gains in US Foods Holding Corp., PRA Health Sciences, Inc. and HCA Holdings, Inc. These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were losses in First Data Corporation, Walgreens Boots Alliance, Inc. and Qingdao Haier Co., Ltd. Our privately held investments contributed the remainder of the change in value, the most significant of which were gains relating to Panasonic Healthcare Co., Ltd., Sedgwick Claims Management Services and Alliance Tire Group B.V. (manufacturing sector). The unrealized gains on our privately held investments were partially offset by unrealized losses relating primarily to Aricent Group (technology sector), OEG Management Partners Limited (energy sector) and MMI Holdings Limited (technology sector). The increased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) in the case of Sedgwick Claims Management Services and Alliance Tire Group B.V., valuations that reflect agreements to sell all or a portion of these investments, (ii) an increase in the value of market comparables and (iii) individual company performance. The decreased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) individual company performance or, in certain cases, an unfavorable business outlook and (ii) a decrease in the value of market comparables.

Segment Expenses

Compensation and Benefits

The net increase was due primarily to higher performance income compensation resulting from a higher level of gains in our private equity portfolio in the current period compared to the prior period as described above as well as increased cash compensation and benefits. These increases were partially offset by a greater amount of compensation and benefits expense allocated to Principal Activities as a result of an increase in the proportion of revenue earned by Principal Activities relative to other operating segments.

Occupancy and Other Operating Expenses

The decrease is primarily due to a decrease in expenses that are creditable to our investment funds, which includes broken-deal expenses, as well as a decrease relating to a greater amount of other operating expenses allocated to Principal Activities as a result of an increase in the proportion of revenue earned by Principal Activities relative to other operating segments. These decreases were partially offset by an increase in professional fees.

Economic Net Income (Loss)

The increase was primarily due to a higher level of performance income in the current period compared to the prior period and higher fees partially offset by an increase in compensation and benefits as described above.

Assets Under Management

The following table reflects the changes in our Private Markets AUM from December 31, 2016 to September 30, 2017:

	(\$ in thousands)
December 31, 2016	\$ 73,815,500
New Capital Raised	15,367,500
Distributions and Other	(9,166,800)
Change in Value	7,593,600
September 30, 2017	\$ 87,609,800

AUM for the Private Markets segment was \$87.6 billion at September 30, 2017, an increase of \$13.8 billion, compared to \$73.8 billion at December 31, 2016. The increase was primarily attributable to (i) new capital raised primarily in our Asian Fund III, two new strategic investor partnerships and our Real Estate Credit Opportunity Partners fund and (ii) to a lesser extent, an increase in the value of our Private Markets portfolio. These increases were partially offset by (i) distributions to Private Markets fund investors primarily as a result of realizations most notably in our 2006 Fund, North America Fund XI and European Fund III and (ii) a decrease of \$0.8 billion reflecting expired commitments that are no longer eligible to be called for investments. Our flagship private equity funds like our Asian Fund III, which represents \$9.0 billion of AUM at September 30, 2017, are raised only episodically toward the end of the investment period of their predecessor funds or when their predecessor funds' capital becomes largely invested or allocated for investment.

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The increase in the value of our Private Markets portfolio was driven primarily by net gains of \$2.4 billion in our North America Fund XI, \$0.9 billion in each of our 2006 Fund and European Fund III and \$0.6 billion in each of our Asian Fund II and European Fund IV. The drivers of the overall change in value for Private Markets were consistent with those noted in the Performance Income commentary above. See "-- Private Markets - Segment Revenues - Performance Income."

Fee-Paying Assets Under Management

The following table reflects the changes in our Private Markets FPAUM from December 31, 2016 to September 30, 2017:

	(\$ in thousands)
December 31, 2016	\$ 52,204,800
New Capital Raised	14,653,000
Distributions and Other	(3,719,400)
Net Changes in Fee Base of Certain Funds	(2,418,800)
Change in Value	986,900
September 30, 2017	\$ 61,706,500

FPAUM in our Private Markets segment was \$61.7 billion at September 30, 2017, an increase of \$9.5 billion, compared to \$52.2 billion at December 31, 2016. The increase was primarily attributable to new capital raised in our Asian Fund III (which reached its \$8.5 billion limit on fee paying limited partner capital during the second quarter of 2017) and capital invested in our Asian Fund II and North America Fund XI. These increases were partially offset by (i) distributions and other activity primarily relating to realizations in our 2006 Fund and European Fund III and (ii) net changes in the fee base of our Asian Fund II as a result of it entering into its post investment period, during which it earns fees based on invested capital rather than committed capital.

Capital Invested

The increase was driven primarily by a \$4.1 billion increase in capital invested in our private equity platform, which includes an increase in core private equity of \$1.0 billion consisting of an investment in USI, Inc. made by us and one of our investment funds, and a \$1.5 billion increase in capital invested in our real assets and other platforms.

Generally, the portfolio companies acquired through our private equity funds have higher transaction values and result in higher capital invested relative to transactions in our real assets funds. The number of large private equity investments made in any quarter is volatile and consequently, a significant amount of capital invested in one quarter or a few quarters may not be indicative of a similar level of capital deployment in future quarters. During the nine months ended September 30, 2017, 38% of capital deployed in private equity, excluding core private equity, was in transactions in the Asia-Pacific region, 38% was in North America and 24% was in Europe.

Uncalled Commitments

As of September 30, 2017, our Private Markets segment had \$39.4 billion of remaining uncalled capital commitments that could be called for investments in new transactions. The increase from September 30, 2016 is due primarily to new capital raised in our Asian Fund III, two new strategic investor partnerships and Americas Fund XII, partially offset by capital called from fund investors to fund investments during the period.

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Public Markets Segment

The following tables set forth information regarding the results of operations and certain key operating metrics for our Public Markets segment for the three and nine months ended September 30, 2017 and 2016.

Three months ended September 30, 2017 compared to three months ended September 30, 2016

	Three Months Ended		
	September	September	Change
	30, 2017	30, 2016	
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$79,113	\$83,713	\$(4,600)
Monitoring Fees	—	—	—
Transaction Fees	11,469	10,748	721
Fee Credits	(10,893)	(10,265)	(628)
Total Management, Monitoring and Transaction Fees, Net	79,689	84,196	(4,507)
Performance Income			
Realized Incentive Fees	4,074	3,659	415
Realized Carried Interest	—	—	—
Unrealized Carried Interest	36,933	17,012	19,921
Total Performance Income	41,007	20,671	20,336
Investment Income (Loss)			
Net Realized Gains (Losses)	—	—	—
Net Unrealized Gains (Losses)	—	—	—
Total Realized and Unrealized	—	—	—
Interest Income and Dividends	—	—	—
Interest Expense	—	—	—
Net Interest and Dividends	—	—	—
Total Investment Income (Loss)	—	—	—
Total Segment Revenues	120,696	104,867	15,829
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	16,257	22,022	(5,765)
Realized Performance Income Compensation	1,630	1,463	167
Unrealized Performance Income Compensation	16,553	6,805	9,748
Total Compensation and Benefits	34,440	30,290	4,150
Occupancy and related charges	1,535	2,570	(1,035)
Other operating expenses	7,672	8,894	(1,222)
Total Segment Expenses	43,647	41,754	1,893
Income (Loss) attributable to noncontrolling interests	—	—	—
Economic Net Income (Loss)	\$77,049	\$63,113	\$13,936

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Assets Under Management	\$65,729,700	\$55,920,200	\$9,809,500
Fee Paying Assets Under Management	\$52,016,500	\$49,143,500	\$2,873,000
Capital Invested	\$1,639,200	\$1,484,400	\$154,800
Uncalled Commitments	\$7,828,600	\$6,428,200	\$1,400,400

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Segment Revenues

Management, Monitoring and Transaction Fees, Net

The net decrease was primarily due to a decrease in management fees. The decrease in management fees was primarily due to a reduction in management fees from KKR Prisma as a result of the PAAMCO Prisma transaction that closed in the second quarter of 2017. KKR reports its investment in PAAMCO Prisma using the equity method of accounting, and on a segment basis, KKR reflects its allocation of the net income of PAAMCO Prisma as management fees and realized incentive fees. Accordingly, the management fees and other revenues and expenses of Prisma that had been reported on a gross basis prior to the closing of the transaction on June 1, 2017 are reflected on a net basis as part of our allocation of the net income of PAAMCO Prisma after June 1, 2017 resulting in a decrease in our reported gross management fees when compared to the prior period. See "-- Business Segments - Public Markets." This decrease was partially offset by capital invested in our Special Situations Fund II, Lending Partners II Fund, Lending Partners III Fund and Lending Partners Europe Fund as well as an increase in management fees from our strategic manager partnerships.

Performance Income

The net increase was primarily attributable to a higher level of net carried interest gains in the three months ended September 30, 2017, compared to the three months ended September 30, 2016. The carried interest gains in the current period were primarily the result of net increases in the value of our credit portfolio, the most significant of which was in our mezzanine strategy.

Segment Expenses

Compensation and Benefits

The increase was primarily due to higher net performance income compensation in connection with a higher level of net carried interest gains for the three months ended September 30, 2017, as compared to three months ended September 30, 2016, as described above, partially offset by decreased cash compensation and benefits due primarily to the PAAMCO Prisma transaction which closed on June 1, 2017. KKR reports its investment in PAAMCO Prisma using the equity method of accounting. Accordingly, the compensation expenses of Prisma that had been reported on a gross basis prior to the closing of the transaction on June 1, 2017 are reflected as part of our allocation of the net income of PAAMCO Prisma after June 1, 2017 resulting in a decrease in our reported cash compensation and benefits expense when compared to the prior period. See "-- Business Segments - Public Markets."

Occupancy and Other Operating Expenses

The decrease was primarily driven by lower operating expenses as a result of having transferred certain leased office space and other operating expenses as part of the PAAMCO Prisma transaction. See "-- Business Segments - Public Markets."

Economic Net Income (Loss)

The increase is primarily attributable to the increase in performance income, partially offset by the increase in compensation and benefits expense as described above.

Assets Under Management

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The following table reflects the changes in our Public Markets AUM from June 30, 2017 to September 30, 2017:

	(\$ in thousands)
June 30, 2017	\$ 63,499,000
New Capital Raised	3,392,200
Distributions	(1,273,400)
Redemptions	(559,500)
Change in Value	671,400
September 30, 2017	\$ 65,729,700

AUM in our Public Markets segment totaled \$65.7 billion at September 30, 2017, an increase of \$2.2 billion compared to AUM of \$63.5 billion at June 30, 2017. The increase was primarily due to new capital raised across multiple strategies, most

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notably \$1.4 billion in two new strategic investor partnerships, \$0.7 billion in our CLOs and \$0.7 billion with our strategic manager partnerships. The increases due to change in value were driven primarily by \$0.2 billion in our European CLOs, \$0.1 billion with our strategic manager partnerships and \$0.1 billion in our European liquid credit mandates. Partially offsetting these increases were redemptions and distributions from certain investment vehicles, most notably with our strategic manager partnerships and our CLOs. For the three months ended September 30, 2017, new capital raised has outpaced redemptions with our strategic manager partnerships.

Fee-Paying Assets Under Management

The following table reflects the changes in our Public Markets FPAUM from June 30, 2017 to September 30, 2017:

	(\$ in thousands)
June 30, 2017	\$ 50,637,300
New Capital Raised	2,950,000
Distributions	(1,752,100)
Redemptions	(559,500)
Change in Value	740,800
September 30, 2017	\$ 52,016,500

FPAUM in our Public Markets segment was \$52.0 billion at September 30, 2017, an increase of \$1.4 billion compared to FPAUM of \$50.6 billion at June 30, 2017. The increase was primarily due to new capital raised across multiple strategies most notably \$0.7 billion with our strategic manager partnerships, \$0.7 billion in our CLOs, \$0.5 billion in our Special Situations II Fund and \$0.2 billion in our Lending Partners III Fund. New capital raised includes capital that was raised in previous periods but began earning fees upon deployment of capital. Partially offsetting these increases were redemptions and distributions from certain investment vehicles including \$1.1 billion across multiple alternative credit strategies, \$0.5 billion at our strategic manager partnerships and \$0.4 billion from our CLOs. For the three months ended September 30, 2017, new capital raised has outpaced redemptions with our strategic manager partnerships. Uncalled capital commitments from investment funds from which KKR is currently not earning management fees amounted to approximately \$5.4 billion. This capital will generally begin to earn management fees upon deployment of the capital or upon the commencement of the fund's investment period. The average annual management fee rate associated with this capital is approximately 1.1%. We will not begin earning fees on this capital until it is deployed or the related investment period commences, neither of which is guaranteed. If and when such management fees are earned, which will occur over an extended period of time, a portion of existing FPAUM may cease paying fees or pay lower fees, thus offsetting a portion of any new management fees earned.

Capital Invested

Capital invested increased for the three months ended September 30, 2017, compared to the three months ended September 30, 2016. The increase is primarily due to a higher level of net capital deployed primarily in our direct lending strategy.

Uncalled Commitments

As of September 30, 2017, our Public Markets segment had \$7.8 billion of uncalled capital commitments that could be called for investments in new transactions. The increase from September 30, 2016 is due to new capital raised primarily in two new strategic investor partnerships and Lending Partners III Fund, partially offset by capital called from limited partners to fund investments during the period.

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Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

	Nine Months Ended		
	September 30, 2017	September 30, 2016	Change
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$251,201	\$245,349	\$5,852
Monitoring Fees	—	—	—
Transaction Fees	41,040	17,768	23,272
Fee Credits	(33,894)	(16,230)	(17,664)
Total Management, Monitoring and Transaction Fees, Net	258,347	246,887	11,460
Performance Income			
Realized Incentive Fees	8,384	9,897	(1,513)
Realized Carried Interest	—	3,838	(3,838)
Unrealized Carried Interest	71,762	(3,370)	75,132
Total Performance Income	80,146	10,365	69,781
Investment Income (Loss)			
Net Realized Gains (Losses)	—	—	—
Net Unrealized Gains (Losses)	—	—	—
Total Realized and Unrealized	—	—	—
Interest Income and Dividends	—	—	—
Interest Expense	—	—	—
Net Interest and Dividends	—	—	—
Total Investment Income (Loss)	—	—	—
Total Segment Revenues	338,493	257,252	81,241
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	58,991	61,193	(2,202)
Realized Performance Income Compensation	3,354	5,493	(2,139)
Unrealized Performance Income Compensation	30,485	(1,347)	31,832
Total Compensation and Benefits	92,830	65,339	27,491
Occupancy and related charges	5,140	7,252	(2,112)
Other operating expenses	24,244	28,102	(3,858)
Total Segment Expenses	122,214	100,693	21,521
Income (Loss) attributable to noncontrolling interests	—	—	—
Economic Net Income (Loss)	\$216,279	\$156,559	\$59,720
Assets Under Management	\$65,729,700	\$55,920,200	\$9,809,500
Fee Paying Assets Under Management	\$52,016,500	\$49,143,500	\$2,873,000
Capital Invested	\$3,825,900	\$3,049,400	\$776,500
Uncalled Commitments	\$7,828,600	\$6,428,200	\$1,400,400

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Segment Revenues

Management, Monitoring and Transaction Fees, Net

The net increase was primarily due to an increase in transaction fees, partially offset by a corresponding increase in fee credits, and an increase in management fees. The increase in transaction fees was driven primarily by a \$18.5 million breakup fee received in the nine months ended September 30, 2017 in connection with a terminated transaction, compared to no such breakup fees in the nine months ended September 30, 2016. The net amount of this fee attributable to us after credits to our limited partners was \$4.6 million. The increase in management fees related primarily to capital invested in our Special Situations Fund II, Lending Partners II Fund, and Lending Partners Europe Fund as well as an increase in management fees with our strategic manager partnerships. These increases were partially offset by a reduction in management fees from KKR Prisma as a result of the PAAMCO Prisma transaction that closed in the second quarter of 2017. KKR reports its investment in PAAMCO Prisma using the equity method of accounting, and on a segment basis, KKR reflects its allocation of the net income of PAAMCO Prisma as management fees and realized incentive fees. Accordingly, the management fees and other revenues and expenses of Prisma that had been reported on a gross basis prior to the closing of the transaction on June 1, 2017 are reflected on a net basis as part of our allocation of the net income of PAAMCO Prisma after June 1, 2017 resulting in a decrease in our reported gross management fees when compared to the prior period.

Performance Income

The net increase was primarily attributable to higher net carried interest gains in the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016. The carried interest gains in the current period were primarily the result of increases in the value of our private credit portfolio, with the most significant carried interest gains arising in our mezzanine and direct lending strategies. In the prior period, net carried interest losses were experienced in our mezzanine strategy.

Segment Expenses

Compensation and Benefits

The increase was primarily due to higher net performance income compensation in connection with higher net carried interest gains for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, as described above. These increases were partially offset by decreased cash compensation and benefits due primarily to (i) a greater amount of compensation and benefits expense allocated to Principal Activities as a result of an increase in the proportion of revenue earned by Principal Activities relative to other operating segments and (ii) the PAAMCO Prisma transaction which closed on June 1, 2017. KKR reports its investment in PAAMCO Prisma using the equity method of accounting. Accordingly, the compensation expenses of Prisma that had been reported on a gross basis prior to the closing of the transaction on June 1, 2017 are reflected as part of our allocation of the net income of PAAMCO Prisma after June 1, 2017 resulting in a decrease in our reported cash compensation and benefits expense when compared to the prior period.

Occupancy and Other Operating Expenses

The decrease was primarily driven by lower operating expenses as a result of having transferred certain leased office space and other operating expenses as part of the PAAMCO Prisma transaction. See "-- Business Segments - Public Markets."

Economic Net Income (Loss)

The increase is primarily attributable to the increase in performance income and transaction and management fees, partially offset by an increase in compensation and benefits expense as described above.

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Assets Under Management

The following table reflects the changes in our Public Markets AUM from December 31, 2016 to September 30, 2017:

	(\$ in thousands)
December 31, 2016	\$ 55,740,200
New Capital Raised	7,608,900
Impact of Other Transactions	3,811,400
Distributions	(2,516,200)
Redemptions	(2,029,600)
Change in Value	3,115,000
September 30, 2017	\$ 65,729,700

AUM in our Public Markets segment totaled \$65.7 billion at September 30, 2017, an increase of \$10.0 billion compared to AUM of \$55.7 billion at December 31, 2016. The increase for the period was primarily due to new capital raised across multiple strategies most notably \$1.4 billion in two new strategic investor partnerships, \$1.3 billion in our liquid credit strategies, \$1.9 billion with our strategic manager partnerships, \$1.3 billion in our CLOs and \$0.8 billion in our Lending Partners III Fund. The "Impact of Other Transactions" represents the closing of the PAAMCO Prisma transaction. This resulted in a net increase of approximately \$3.8 billion reflecting the excess of our pro-rata portion of the AUM of PAAMCO Prisma over the historical AUM of Prisma Capital Partners, our former hedge funds solutions platform. For the nine months ended September 30, 2017, new capital raised outpaced our redemptions with our strategic manager partnerships. The increases due to change in value were driven primarily by our strategic manager partnerships, our domestic private credit strategies and our European liquid credit and European CLOs. Partially offsetting these increases were redemptions and distributions from certain investment vehicles across multiple strategies, primarily with our strategic manager partnerships, our private credit strategies and our CLOs.

Fee-Paying Assets Under Management

The following table reflects the changes in our Public Markets FPAUM from December 31, 2016 to September 30, 2017:

	(\$ in thousands)
December 31, 2016	\$ 49,268,600
New Capital Raised	7,630,100
Impact of Other Transactions	(1,600,000)
Distributions	(3,794,600)
Redemptions	(2,029,600)
Change in Value	2,542,000
September 30, 2017	\$ 52,016,500

FPAUM in our Public Markets segment was \$52.0 billion at September 30, 2017, an increase of \$2.7 billion compared to FPAUM of \$49.3 billion at December 31, 2016. The increase was primarily due to new capital raised across multiple strategies, most notably \$1.9 billion with our strategic manager partnerships, \$1.3 billion in our liquid credit strategies, \$1.3 billion in our CLOs, \$0.8 billion in our Special Situations Fund II and \$0.5 billion in our Lending Partners Fund III. New capital raised includes capital that was raised in previous periods but began earning fees upon deployment of capital. For the nine months ended September 30, 2017, new capital raised has outpaced redemptions with our strategic manager partnerships. Change in value was driven primarily by \$0.9 billion with our strategic manager partnerships, \$0.6 billion in our liquid credit strategies and \$0.5 billion in our European CLOs. Partially offsetting these increases were redemptions and distributions from certain investment vehicles across multiple strategies driven by \$1.4 billion with our strategic manager partnerships, \$2.3 billion from our private credit strategies

and \$1.0 billion from our CLOs. The "Impact of Other Transactions" represents the closing of the PAAMCO Prisma transaction. This resulted in a net decrease of approximately \$1.6 billion reflecting the excess of our historical FPAUM of Prisma Capital Partners, our former hedge funds solutions platform, over our pro-rata portion of the FPAUM of PAAMCO Prisma. FPAUM excludes assets under advisement of PAAMCO Prisma.

Capital Invested

Capital invested increased for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2017. The increase is primarily due to a higher level of net capital deployed in our direct lending and special situations strategies.

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Uncalled Commitments

As of September 30, 2017, our Public Markets segment had \$7.8 billion of uncalled capital commitments that could be called for investments in new transactions. The increase from September 30, 2016 is due to new capital raised primarily in two new strategic investor partnerships and Lending Partners III Fund, partially offset by capital called from limited partners to fund investments during the period.

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Capital Markets

The following tables set forth information regarding the results of operations and certain key operating metrics for our Capital Markets segment for the three and nine months ended September 30, 2017 and 2016.

Three months ended September 30, 2017 compared to three months ended September 30, 2016

	Three Months Ended		Change
	September 30, 2017	September 30, 2016	
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$—	\$—	\$—
Monitoring Fees	—	—	—
Transaction Fees	85,440	47,383	38,057
Fee Credits	—	—	—
Total Management, Monitoring and Transaction Fees, Net	85,440	47,383	38,057
Performance Income			
Realized Incentive Fees	—	—	—
Realized Carried Interest	—	—	—
Unrealized Carried Interest	—	—	—
Total Performance Income	—	—	—
Investment Income (Loss)			
Net Realized Gains (Losses)	—	—	—
Net Unrealized Gains (Losses)	—	—	—
Total Realized and Unrealized	—	—	—
Interest Income and Dividends	—	—	—
Interest Expense	—	—	—
Net Interest and Dividends	—	—	—
Total Investment Income (Loss)	—	—	—
Total Segment Revenues	85,440	47,383	38,057
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	16,924	7,803	9,121
Realized Performance Income Compensation	—	—	—
Unrealized Performance Income Compensation	—	—	—
Total Compensation and Benefits	16,924	7,803	9,121
Occupancy and related charges	760	330	430
Other operating expenses	6,293	3,552	2,741
Total Segment Expenses	23,977	11,685	12,292
Income (Loss) attributable to noncontrolling interests	1,046	760	286
Economic Net Income (Loss)	\$60,417	\$34,938	\$25,479

Syndicated Capital

\$533,300 \$537,000 \$(3,700)

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Segment Revenues

Management, Monitoring and Transaction Fees, Net

Transaction fees increased due primarily to an increase in both the number and size of capital markets transactions for the three months ended September 30, 2017, compared to the three months ended September 30, 2016. Overall, we completed 48 capital markets transactions for the three months ended September 30, 2017, of which 2 represented equity offerings and 46 represented debt offerings, as compared to 31 transactions for the three months ended September 30, 2016, of which 2 represented equity offerings and 29 represented debt offerings. We earned fees in connection with underwriting, syndication and other capital markets services. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting or syndicating equity offerings than with respect to debt offerings, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes. Our capital markets fees are sourced from our Private Markets and Public Markets businesses as well as third party companies. For the three months ended September 30, 2017, approximately 38% of our transaction fees were earned from unaffiliated third parties as compared to approximately 11% for the three months ended September 30, 2016. Our transaction fees are comprised of fees earned from North America, Europe, and Asia-Pacific, including India. For the three months ended September 30, 2017, approximately 21% of our transaction fees were sourced outside of the United States as compared to approximately 11% for the three months ended September 30, 2016. Our capital markets business is dependent on the overall capital markets environment, which is influenced by equity prices, credit spreads and volatility. Our capital markets business does not generate management or monitoring fees.

Segment Expenses

Compensation and Benefits and Other Operating Expenses

Segment expenses have increased compared to the prior period primarily due to higher compensation and benefits expense as a result of higher transactions fees. The increase in other operating expenses as compared to the prior period is primarily attributable to increased professional fees in connection with increased transaction costs.

Economic Net Income (Loss)

The increase is primarily attributable to the increase in transaction fees, partially offset by the increase in compensation and benefits expense as described above.

Syndicated Capital

Syndicated capital for the three months ended September 30, 2017 is essentially flat as compared to the three months ended September 30, 2016. Overall, we completed one syndication transaction for the three months ended September 30, 2017, as compared to two syndication transactions for the three months ended September 30, 2016.

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Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

	Nine Months Ended		Change
	September 30, 2017	September 30, 2016	
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$—	\$—	\$—
Monitoring Fees	—	—	—
Transaction Fees	300,235	144,214	156,021
Fee Credits	—	—	—
Total Management, Monitoring and Transaction Fees, Net	300,235	144,214	156,021
Performance Income			
Realized Incentive Fees	—	—	—
Realized Carried Interest	—	—	—
Unrealized Carried Interest	—	—	—
Total Performance Income	—	—	—
Investment Income (Loss)			
Net Realized Gains (Losses)	—	—	—
Net Unrealized Gains (Losses)	—	—	—
Total Realized and Unrealized	—	—	—
Interest Income and Dividends	—	—	—
Interest Expense	—	—	—
Net Interest and Dividends	—	—	—
Total Investment Income (Loss)	—	—	—
Total Segment Revenues	300,235	144,214	156,021
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	57,053	23,374	33,679
Realized Performance Income Compensation	—	—	—
Unrealized Performance Income Compensation	—	—	—
Total Compensation and Benefits	57,053	23,374	33,679
Occupancy and related charges	2,052	1,901	151
Other operating expenses	15,320	10,870	4,450
Total Segment Expenses	74,425	36,145	38,280
Income (Loss) attributable to noncontrolling interests	3,810	2,002	1,808
Economic Net Income (Loss)	\$222,000	\$106,067	\$115,933
Syndicated Capital	\$2,167,600	\$1,213,500	\$954,100

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Segment Revenues

Management, Monitoring and Transaction Fees, Net

Transaction fees increased due to an increase in both the number and size of capital markets transactions for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Overall, we completed 144 capital markets transactions for the nine months ended September 30, 2017 of which 20 represented equity offerings and 124 represented debt offerings, as compared to 82 transactions for the nine months ended September 30, 2016 of which 11 represented equity offerings and 71 represented debt offerings. We earned fees in connection with underwriting, syndication and other capital markets services. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting or syndicating equity offerings than with respect to debt offerings, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes. Our capital markets fees are sourced from our Private Markets and Public Markets businesses as well as third party companies. For the nine months ended September 30, 2017 approximately 28% of our transaction fees were earned from third parties as compared to approximately 15% for the nine months ended September 30, 2016. Our transaction fees are comprised of fees earned from North America, Europe, Asia-Pacific and India. For the nine months ended September 30, 2017 approximately 36% of our transaction fees were sourced outside of the United States as compared to approximately 31% for the nine months ended September 30, 2016. Our capital markets business is dependent on the overall capital markets environment, which is influenced by equity prices, credit spreads and volatility. Our capital markets business does not generate management or monitoring fees.

Segment Expenses

Compensation and Benefits and Other Operating Expenses

Segment expenses have increased compared to the prior period primarily due to higher compensation and benefits expense as a result of higher transactions fees. The increase in other operating expenses as compared to the prior period is primarily attributable to increased professional fees in connection with increased transaction costs.

Economic Net Income (Loss)

The increase is primarily attributable to the increase in transaction fees, which is partially offset by the increase in compensation and benefits expense as described above.

Syndicated Capital

The increase is primarily due to an increase in both the number and average size of syndication transactions in the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. Overall, we completed ten syndication transactions for the nine months ended September 30, 2017 as compared to eight syndications for the nine months ended September 30, 2016.

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Principal Activities

The following tables set forth information regarding the results of operations and certain key operating metrics for our Principal Activities segment for the three and nine months ended September 30, 2017 and 2016.

Three months ended September 30, 2017 compared to three months ended September 30, 2016

	Three Months Ended		Change
	September 30, 2017	September 30, 2016	
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$—	\$—	\$—
Monitoring Fees	—	—	—
Transaction Fees	—	—	—
Fee Credits	—	—	—
Total Management, Monitoring and Transaction Fees, Net	—	—	—
Performance Income			
Realized Incentive Fees	—	—	—
Realized Carried Interest	—	—	—
Unrealized Carried Interest	—	—	—
Total Performance Income	—	—	—
Investment Income (Loss)			
Net Realized Gains (Losses)	76,053	170,078	(94,025)
Net Unrealized Gains (Losses)	(50,902)	136,740	(187,642)
Total Realized and Unrealized	25,151	306,818	(281,667)
Interest Income and Dividends	70,557	71,185	(628)
Interest Expense	(45,613)	(47,506)	1,893
Net Interest and Dividends	24,944	23,679	1,265
Total Investment Income (Loss)	50,095	330,497	(280,402)
Total Segment Revenues	50,095	330,497	(280,402)
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	33,958	24,284	9,674
Realized Performance Income Compensation	—	—	—
Unrealized Performance Income Compensation	—	—	—
Total Compensation and Benefits	33,958	24,284	9,674
Occupancy and related charges	3,840	3,729	111
Other operating expenses	14,176	10,646	3,530
Total Segment Expenses	51,974	38,659	13,315
Income (Loss) attributable to noncontrolling interests	—	—	—
Economic Net Income (Loss)	\$(1,879)	\$291,838	\$(293,717)

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Segment Revenues

Investment Income

The net decrease is primarily due to a lower level of net realized and unrealized gains during the three months ended September 30, 2017, compared to the prior period.

For the three months ended September 30, 2017, net realized gains were primarily comprised of gains from the sale of private markets investments including the sales or partial sales of First Data Corporation, Sentio Healthcare Properties (real estate sector), and Capsugel. Net unrealized losses were primarily attributable the reversal of unrealized gains on the sale of the Private Markets investments mentioned above offset by mark-to-market gains on various Private Markets investments including The Hut Group, Veresen Midstream (infrastructure sector) and Gardner Denver Holdings, Inc.

As of September 30, 2017, \$305.1 million of investments in CLOs and our \$325.0 million investment in our REIT, were carried at cost. As of September 30, 2017, the cumulative net unrealized gain or loss relating to changes in fair value for these investments was a \$16.9 million loss for CLOs and a \$16.9 million gain for the real estate investment trust.

For the three months ended September 30, 2016, net realized gains were comprised primarily of the sales or partial sales of private equity investments, the most significant of which were Walgreens Boots Alliance, Inc. and Zimmer Biomet Holdings, Inc. These gains were partially offset by losses from the sale of certain alternative credit investments. Net unrealized gains were primarily attributable to the mark to market gains on First Data Corporation and certain energy investments offset by the reversal of unrealized gains on the sale or partial sales of Walgreens Boots Alliance, Inc. and Zimmer Biomet Holdings, Inc.

For the three months ended September 30, 2017, net interest and dividends were comprised of (i) \$42.6 million of interest income which consists primarily of interest that is received from our Public Markets investments including CLOs and other credit investments and to a lesser extent our capital markets business and our cash balances, (ii) \$27.9 million of dividend income from distributions received primarily through our private equity investments and real estate investments including our investment in our REIT and (iii) \$45.6 million of interest expense primarily relating to the senior notes outstanding for KKR and KFN.

For the three months ended September 30, 2016, net interest and dividends were comprised of (i) \$43.8 million of interest income which consists primarily of interest that is received from our Public Markets investments including CLOs and to a lesser extent our cash balances and other assets, (ii) \$27.3 million of dividend income from distributions received primarily through our private equity investments, real estate funds and Public Markets investments and (iii) \$47.5 million of interest expense primarily relating to the senior notes outstanding for KKR and KFN.

Segment Expenses

Compensation and Benefits

The increase was primarily due to a greater amount of compensation and benefits expenses allocated from the other operating segments to Principal Activities, as well as a greater amount of corporate compensation allocated to Principal Activities, in each case as a result of an increase in the proportion of revenue earned by Principal Activities relative to other operating segments as well as an increase in the absolute amount of compensation recorded. See "-Segment Analysis" for a discussion of expense allocations among segments.

Occupancy and Other Operating Expenses

The increase was primarily due to a greater amount of other operating expenses allocated from the other operating segments to Principal Activities, as well as a greater amount of corporate other operating expenses allocated to Principal Activities, in each case as a result of an increase in the proportion of revenue earned by Principal Activities relative to other operating segments.

Economic Net Income (Loss)

The decrease in economic net income for the three months ended September 30, 2017 was primarily driven by the decrease in net investment income as described above.

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Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

	Nine Months Ended		Change
	September 30, 2017	September 30, 2016	
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$—	\$—	\$—
Monitoring Fees	—	—	—
Transaction Fees	—	—	—
Fee Credits	—	—	—
Total Management, Monitoring and Transaction Fees, Net	—	—	—
Performance Income			
Realized Incentive Fees	—	—	—
Realized Carried Interest	—	—	—
Unrealized Carried Interest	—	—	—
Total Performance Income	—	—	—
Investment Income (Loss)			
Net Realized Gains (Losses)	162,684	370,594	(207,910)
Net Unrealized Gains (Losses)	461,111	(725,699)	1,186,810
Total Realized and Unrealized	623,795	(355,105)	978,900
Interest Income and Dividends	195,275	253,756	(58,481)
Interest Expense	(134,348)	(144,497)	10,149
Net Interest and Dividends	60,927	109,259	(48,332)
Total Investment Income (Loss)	684,722	(245,846)	930,568
Total Segment Revenues	684,722	(245,846)	930,568
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	105,591	72,689	32,902
Realized Performance Income Compensation	—	—	—
Unrealized Performance Income Compensation	—	—	—
Total Compensation and Benefits	105,591	72,689	32,902
Occupancy and related charges	11,082	11,121	(39)
Other operating expenses	40,265	32,404	7,861
Total Segment Expenses	156,938	116,214	40,724
Income (Loss) attributable to noncontrolling interests	—	—	—
Economic Net Income (Loss)	\$527,784	\$(362,060)	\$889,844

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Segment Revenues

Investment Income

The net increase is primarily due to unrealized gains during the nine months ended September 30, 2017, compared to unrealized losses in the prior period, partially offset by a decrease in net interest and dividends of \$49.6 million. For the nine months ended September 30, 2017, net realized gains were primarily comprised of gains from the sale of private equity investments including the sales or partial sales of HCA Holdings, Inc., Galenica AG and First Data Corporation partially offset by losses on the sale of Fortune Creek Partnership (energy sector) and the restructurings of Algeco Scotsman (industrial sector) and Aurora Eaglebine (energy sector). Net unrealized gains were primarily attributable to mark-to-market gains on various Private Markets investments including First Data Corporation, an oil field services investment in our special situations strategy, and Veresen Midstream. These increases were partially offset primarily by unrealized losses due to the reversal of unrealized gains on the sales of private equity investments mentioned above.

As of September 30, 2017, \$305.1 million of investments in CLOs and our \$325.0 million investment in our REIT, were carried at cost. As of September 30, 2017, the cumulative net unrealized gain or loss relating to changes in fair value for these investments was a \$16.9 million loss for CLOs and a \$16.9 million gain for our REIT.

For the nine months ended September 30, 2016, net realized gains were primarily comprised of gains from the sale of private equity investments including the sales or partial sales of Walgreens Boots Alliance, Inc., HCA Holdings, Inc. and Zimmer Biomet Holdings, Inc., offset by the loss from the redemption of limited partner interests in a fund managed by BlackGold Capital Management, as well as certain CLOs being called and the sale of certain alternative credit investments. As of September 30, 2016, KKR no longer holds any limited partner interests in BlackGold Capital Management, although we continue to own an interest in the general partner and management company. Net unrealized losses were primarily attributable to mark-to-market losses on various Private Markets investments including First Data Corporation and to a lesser extent Walgreens Boots Alliance, Inc., mark-to-market losses on various alternative credit investments and unrealized losses on energy investments, and reversals of unrealized gains on the sales of private equity investments.

For the nine months ended September 30, 2017, net interest and dividends were comprised of (i) \$117.2 million of interest income which consists primarily of interest that is received from our Public Markets investments including CLOs and other credit investments and to a lesser extent our capital markets business and our cash balances, (ii) \$78.1 million of dividend income from distributions received primarily through our private equity investments and real estate investments including our investment in our REIT and (iii) \$134.4 million of interest expense primarily relating to the senior notes outstanding for KKR and KFN.

For the nine months ended September 30, 2016, net interest and dividends were comprised of (i) \$139.8 million of interest income which consists primarily of interest that is received from our Public Markets investments including CLOs and to a lesser extent our cash balances and other assets, (ii) \$113.9 million of dividend income from distributions received primarily through our private equity investments, real estate funds and Public Markets investments and (iii) \$144.5 million of interest expense primarily relating to the senior notes outstanding for KKR and KFN.

The net decrease in net interest and dividends is due primarily to the lower amount of capital invested in CLOs described above, as well as a lower level of dividends in the 2017 period, partially offset by lower interest expense due to the redemption and paydown of KFN's 8.375% senior notes due 2041 and other debt after the third quarter of 2016, a portion of which was replaced with debt bearing a lower rate of interest.

Segment Expenses

Compensation and Benefits

The increase was primarily due to a greater amount of compensation and benefits expenses allocated from the other operating segments to Principal Activities, as well as a greater amount of corporate compensation allocated to Principal Activities, in each case as a result of an increase in the proportion of revenue earned by Principal Activities relative to other operating segments as well as an increase in the absolute amount of compensation recorded. See "-Segment Analysis" for a discussion of expense allocations among segments.

Occupancy and Other Operating Expenses

The increase was primarily due to a greater amount of other operating expenses allocated from the other operating segments to Principal Activities, as well as a greater amount of corporate other operating expenses allocated to Principal

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Activities, in each case as a result of an increase in the proportion of revenue earned by Principal Activities relative to other operating segments.

Economic Net Income (Loss)

The increase in economic net income for the nine months ended September 30, 2017 was primarily driven by the net investment income in the current period as described above.

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Segment Balance Sheet

Our segment balance sheet is the balance sheet of KKR & Co. L.P. and its subsidiaries on a segment basis which includes, but is not limited to, our investment management companies, broker-dealer companies, general partners of our investment funds and KFN. Our segment balance sheet excludes the assets and liabilities of our investment funds and CFEs and other consolidated entities that are not subsidiaries of KKR & Co. L.P.

Investments

Investments is a term used solely for purposes of financial presentation of a portion of KKR's balance sheet and includes majority ownership of subsidiaries that operate KKR's asset management and other businesses, including the general partner interests of KKR's investment funds.

Cash and Short-Term Investments

Cash and short-term investments represent cash and liquid short-term investments in high-grade, short-duration cash management strategies used by KKR to generate additional yield on our excess liquidity and is used by management in evaluating KKR's liquidity position. We believe this measure is useful to unitholders as it provides additional insight into KKR's available liquidity. Cash and short-term investments differ from cash and cash equivalents on a GAAP basis as a result of the inclusion of liquid short-term investments in cash and short-term investments. The impact that these liquid short-term investments have on cash and cash equivalents on a GAAP basis is reflected in the consolidated statements of cash flows within cash flows from operating activities. Accordingly, the exclusion of these investments from cash and cash equivalents on a GAAP basis has no impact on cash provided (used) by operating activities, investing activities or financing activities.

The following tables present information with respect to our segment balance sheet as of September 30, 2017 and December 31, 2016:

	As of September 30, 2017	As of December 31, 2016
	(\$ in thousands, except per unit amounts)	
Cash and Short-term Investments	\$ 3,623,773	\$ 3,387,673
Investments	8,123,514	6,958,873
Unrealized Carry ⁽¹⁾	1,474,693	1,213,692
Other Assets	1,964,794	1,611,678
Corporate Real Estate	161,225	161,225
Total Assets	\$ 15,347,999	\$ 13,333,141
Debt Obligations - KKR (ex-KFN)	\$ 2,000,000	\$ 2,000,000
Debt Obligations - KFN	639,767	398,560
Preferred Shares - KFN	373,750	373,750
Other Liabilities	596,079	244,676
Total Liabilities	3,609,596	3,016,986
Noncontrolling Interests	20,849	19,564
Preferred Units	500,000	500,000
Book Value	\$ 11,217,554	\$ 9,796,591
Book Value Per Outstanding Adjusted Unit	\$ 13.80	\$ 12.15

(1) Unrealized Carry		
Private Markets	\$ 1,347,729	\$ 1,141,610
Public Markets	126,964	72,082
Total	\$ 1,474,693	\$ 1,213,692

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The following table presents the holdings of our segment balance sheet by asset class as of September 30, 2017. To the extent investments on our segment balance sheet, for example in energy, direct lending, CLOs and specialty finance, are realized at values below their cost, after-tax distributable earnings would be adversely affected by the amount of such loss, if any, during the period in which the realization event occurs.

As of September 30, 2017

Investments	Cost	Carrying Value	Carrying Value as a Percentage of Total Investments	
Private Equity Co-Investments and Other Equity	\$2,281,693	\$2,697,619	33.2	%
Private Equity Funds	1,026,481	1,348,599	16.6	%
Private Equity Total	3,308,174	4,046,218	49.8	%
Energy	933,568	549,607	6.8	%
Real Estate ⁽¹⁾	744,935	795,042	9.8	%
Infrastructure	285,695	370,318	4.6	%
Real Assets Total	1,964,198	1,714,967	21.2	%
Special Situations	810,251	820,148	10.1	%
Direct Lending	100,188	97,111	1.2	%
Mezzanine	34,681	39,052	0.5	%
Alternative Credit Total	945,120	956,311	11.8	%
CLOs ⁽¹⁾	951,194	578,587	7.1	%
Liquid Credit	143,349	152,699	1.9	%
Specialty Finance	283,898	209,755	2.6	%
Credit Total	2,323,561	1,897,352	23.4	%
Other	439,839	464,977	5.6	%
Total Investments	\$8,035,772	\$8,123,514	100.0	%

As of September 30, 2017

Significant Investments: ⁽²⁾	Cost	Carrying Value	Carrying Value as a Percentage of Total Investments	
First Data Corporation (NYSE: FDC)	\$956,454	\$1,279,098	15.7	%
USI, Inc. (financial services sector)	500,111	503,711	6.2	%
KKR Real Estate Finance Trust Inc. (NYSE: KREF)	324,997	325,000	4.0	%
PortAventura Entertainment S.A. (hotels/leisure sector)	233,132	255,821	3.1	%
Natural Gas Midstream Investment (infrastructure sector)	150,330	209,728	2.6	%
Total Significant Investments	2,165,024	2,573,358	31.6	%

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Other Investments	5,870,748	5,550,156	68.4	%
Total Investments	\$8,035,772	\$8,123,514	100.0	%

(1) Includes approximately \$305.1 million and \$325.0 million of CLOs and our ownership of KKR Real Estate Finance Trust Inc., respectively, that are not held for investment purposes and are held at cost.

(2) The significant investments include the top five investments (other than investments expected to be syndicated or transferred in connection with new fundraising) based on their carrying values as of September 30, 2017. The carrying value figures include the co-investment and the limited partner and/or general partner interests held by KKR in the underlying investment, if applicable.

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The following tables provide reconciliations of KKR's GAAP Condensed Consolidated Statements of Financial Condition to Total Reportable Segments Balance Sheet as of September 30, 2017 and December 31, 2016.

As of September 30, 2017

(Amounts in thousands)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (GAAP BASIS)	1	2	3	4	5	TOTAL REPORTABLE SEGMENTS BALANCE SHEET		
Assets								
Cash and Cash Equivalents	\$2,436,566	—	—	1,187,207	—	—	\$3,623,773	Cash and Short-term Investments
Investments	37,251,837	(26,522,559)	(1,131,071)	(1,474,693)	—	—	8,123,514	Investments
		—	—	1,474,693	—	—	1,474,693	Unrealized Carry
Other Assets	4,617,236	(1,002,082)	—	(1,348,432)	—	(301,928)	1,964,794	Other Assets
		—	—	161,225	—	—	161,225	Corporate Real Estate
Total Assets	\$44,305,639	(27,524,641)	(1,131,071)	—	—	(301,928)	\$15,347,999	
Liabilities and Equity								
Debt Obligations	\$20,290,714	(17,650,947)	—	(639,767)	—	—	\$2,000,000	Debt Obligations - KKR (ex-KFN)
		—	—	639,767	—	—	639,767	Debt Obligations - KFN
		—	—	373,750	—	—	373,750	Preferred Shares - KFN
Other Liabilities	4,149,491	(2,245,511)	(1,131,071)	—	—	(176,830)	596,079	Other Liabilities
Total Liabilities	24,440,205	(19,896,458)	(1,131,071)	373,750	—	(176,830)	3,609,596	
Redeemable Noncontrolling Interests	570,134	(570,134)	—	—	—	—	—	
Equity								
Series A Preferred Units	332,988	—	—	(332,988)	—	—	—	
Series B Preferred Units	149,566	—	—	(149,566)	—	—	—	
KKR & Co. L.P. Capital - Common	6,380,654	166,480	—	(17,446)	4,812,964	(125,098)	11,217,554	Book Value

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Unitholders								
Noncontrolling Interests	12,432,092	(7,224,529)	—	(373,750)	(4,812,964)	—	20,849	Noncontrolling Interests
		—	—	500,000	—	—	500,000	Preferred Units
Total Liabilities and Equity	\$44,305,639	(27,524,641)	(1,131,071)	—	—	(301,928)	\$15,347,999	

- 1 IMPACT OF CONSOLIDATION OF INVESTMENT VEHICLES AND OTHER ENTITIES
- 2 CARRY POOL RECLASSIFICATION
- 3 OTHER RECLASSIFICATIONS
- 4 NONCONTROLLING INTERESTS HELD BY KKR HOLDINGS L.P. AND OTHER
- 5 EQUITY IMPACT OF KKR MANAGEMENT HOLDINGS CORP.

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As of December 31, 2016

(Amounts in thousands)

CONDENSED

CONSOLIDATED

STATEMENTS OF

FINANCIAL CONDITION

(GAAP BASIS)

Assets

	1	2	3	4	5	TOTAL REPORTABLE SEGMENTS BALANCE SHEET		
Cash and Cash Equivalents	\$2,508,902	—	—	878,771	—	—	\$3,387,673	Cash and Short-term Investments
Investments	31,409,765	(22,249,206)	(987,994)	(1,213,692)	—	—	6,958,873	Investments
		—	—	1,213,692	—	—	1,213,692	Unrealized Carry
Other Assets	5,084,230	(2,118,364)	—	(1,039,996)	—	(314,192)	1,611,678	Other Assets
		—	—	161,225	—	—	161,225	Corporate Real Estate
Total Assets	\$39,002,897	(24,367,570)	(987,994)	—	—	(314,192)	\$13,333,141	

Liabilities and
Equity

Debt Obligations	\$18,544,075	(16,145,515)	—	(398,560)	—	—	\$2,000,000	Debt Obligations - KKR (ex-KFN)
		—	—	398,560	—	—	398,560	Debt Obligations - KFN
		—	—	373,750	—	—	373,750	Preferred Shares - KFN
Other Liabilities	3,340,739	(1,945,039)	(987,994)	—	—	(163,030)	244,676	Other Liabilities
Total Liabilities	21,884,814	(18,090,554)	(987,994)	373,750	—	(163,030)	3,016,986	

Redeemable

Noncontrolling Interests	632,348	(632,348)	—	—	—	—		
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Equity

Series A Preferred Units	332,988	—	—	(332,988)	—	—		
Series B Preferred Units	149,566	—	—	(149,566)	—	—		
KKR & Co. L.P. Capital - Common Unitholders	5,457,279	118,635	—	(17,446)	4,389,285	(151,162)	9,796,591	Book Value
	10,545,902	(5,763,303)	—	(373,750)	(4,389,285)	—	19,564	

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Noncontrolling Interests								Noncontrolling Interests Preferred Units
	—	—	500,000	—	—	500,000		
Total Liabilities and Equity	\$39,002,897	(24,367,570)	(987,994)	—	—	(314,192)	\$13,333,141	

- 1 IMPACT OF CONSOLIDATION OF INVESTMENT VEHICLES AND OTHER ENTITIES
- 2 CARRY POOL RECLASSIFICATION
- 3 OTHER RECLASSIFICATIONS
- 4 NONCONTROLLING INTERESTS HELD BY KKR HOLDINGS L.P. AND OTHER
- 5 EQUITY IMPACT OF KKR MANAGEMENT HOLDINGS CORP.

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The following tables provide reconciliations of KKR's GAAP Common Units Outstanding to Adjusted Units, Adjusted Units Eligible for Distribution and Outstanding Adjusted Units:

	As of September 30, 2017	As of December 31, 2016
GAAP Common Units Outstanding - Basic	473,134,387	452,380,335
Adjustments:		
Unvested Common Units ⁽¹⁾	31,116,886	37,519,436
Other Exchangeable Securities ⁽²⁾	3,987,713	4,600,320
GAAP Common Units Outstanding - Diluted	508,238,986	494,500,091
Adjustments:		
KKR Holdings Units ⁽³⁾	339,845,707	353,757,398
Adjusted Units	848,084,693	848,257,489
Adjustments:		
Unvested Common Units	(31,116,886)	(37,519,436)
Adjusted Units Eligible for Distribution	816,967,807	810,738,053
Adjustments:		
Vested Other Exchangeable Securities ⁽²⁾	(3,987,713)	(4,600,320)
Outstanding Adjusted Units	812,980,094	806,137,733

Represents equity awards granted under the Equity Incentive Plan. The issuance of common units of KKR & Co. L.P. pursuant to awards under the Equity Incentive Plan dilutes KKR common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR business. Year-end 2016 equity awards were granted before December 31, 2016 (except for awards to our named executive officers), rather than, as has been historical practice, after the end of the year. As a result, adjusted units increased in the fourth quarter of 2016, rather than in the first quarter of 2017.

Represents securities in a subsidiary of a KKR Group Partnership and of KKR & Co. L.P. that are exchangeable into KKR & Co. L.P. common units issued in connection with the acquisition of Avoca.

Common units that may be issued by KKR & Co. L.P. upon exchange of units in KKR Holdings L.P. for KKR common units.

Liquidity

We manage our liquidity and capital requirements by focusing on our cash flows before the consolidation of our funds and CFEs and the effect of changes in short term assets and liabilities, which we anticipate will be settled for cash within one year. Our primary cash flow activities on a segment basis typically involve: (i) generating cash flow from operations; (ii) generating income from investment activities, by investing in investments that generate yield (namely interest and dividends) as well as the sale of investments and other assets; (iii) funding capital commitments that we have made to, and advancing capital to, our funds and CLOs; (iv) developing and funding new investment strategies, investment products and other growth initiatives, including acquisitions of other investments, assets and businesses; (v) underwriting and funding commitments in our capital markets business; (vi) distributing cash flow to our unitholders, certain holders of certain exchangeable securities and holders of our Series A and Series B Preferred Units; and (vii) paying borrowings, interest payments and repayments under credit agreements, our senior notes and other borrowing arrangements. See "-Liquidity - Liquidity Needs - Distributions."

Sources of Liquidity

Our primary sources of liquidity consist of amounts received from: (i) our operating activities, including the fees earned from our funds, portfolio companies, and capital markets transactions; (ii) realizations on carried interest from our investment funds; (iii) interest and dividends from investments that generate yield, including our investments in CLOs; (iv) realizations on and sales of investments and other assets, including the transfers of investments for fund formations and (v) borrowings under our credit facilities, debt offerings and other borrowing arrangements. In addition, we may generate cash proceeds from sales of equity securities.

Many of our investment funds provide carried interest. With respect to our private equity funds, carried interest is distributed to the general partner of a private equity fund with a clawback provision only after all of the following are met: (i) a realization event has occurred (e.g., sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception, in excess of performance hurdles where applicable; and (iii) with respect to investments with a fair value below cost, cost has been returned to fund investors in an amount sufficient to reduce remaining cost to the

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investments' fair value. As of September 30, 2017, certain of our funds had met the first and second criteria, as described above, but did not meet the third criteria. In these cases, carried interest accrues on the consolidated statement of operations, but will not be distributed in cash to us as the general partner of an investment fund upon a realization event. For a fund that has a fair value above cost, overall, but has one or more investments where fair value is below cost, the shortfall between cost and fair value for such investments is referred to as a "netting hole." When netting holes are present, realized gains on individual investments that would otherwise allow the general partner to receive carried interest distributions are instead used to return invested capital to our funds' limited partners in an amount equal to the netting hole. Once netting holes have been filled with either (a) return of capital equal to the netting hole for those investments where fair value is below cost, or (b) increases in the fair value of those investments where fair value is below cost, then realized carried interest will be distributed to the general partner upon a realization event. A fund that is in a position to pay cash carry refers to a fund for which carried interest is expected to be paid to the general partner upon the next material realization event, which includes funds with no netting holes as well as funds with a netting hole that is sufficiently small in size such that the next material realization event would be expected to result in the payment of carried interest. Strategic investor partnerships with fund investors may require netting across the various funds in which they invest, which may reduce the carried interest we otherwise would have earned if such fund investors were to have invested in our funds without the existence of a strategic investor partnership.

As of September 30, 2017, netting holes in excess of \$50 million existed at five of our private equity funds, which were our European Fund IV, European Fund III, Millennium Fund, Asian Fund II and North America Fund XI which had netting holes of approximately \$149 million, \$108 million, \$82 million, \$63 million and \$62 million, respectively. In accordance with the criteria set forth above, other funds currently have and may in the future develop netting holes, and netting holes for those and other funds may otherwise increase or decrease in the future.

We have access to funding under various credit facilities, other borrowing arrangements and other sources of liquidity that we have entered into with major financial institutions or which we receive from the capital markets. The following describes these sources of liquidity.

Revolving Credit Agreements, Senior Notes, KFN Debt Obligations & KFN Securities

For a discussion of KKR's debt obligations, including our revolving credit agreements, senior notes, KFN debt obligations and KFN securities, see Note 10 "Debt Obligations" to the audited financial statements included in our Annual Report on Form 10-K. The information presented below supplements and updates, and should be read in conjunction with, such information. No amounts were borrowed under our corporate credit agreement with HSBC Bank USA for the three and nine months ended September 30, 2017. With respect to the KCM Credit Agreement, no amounts were borrowed and repaid for the three months ended September 30, 2017. For the nine months ended September 30, 2017, \$847 million was borrowed and repaid. As of September 30, 2017, no amounts were drawn under the KCM Credit Agreement, but a letter of credit was outstanding in the amount of \$12 million which reduces the overall capacity of the KCM Credit Agreement.

KCM Short-Term Credit Agreement

On June 29, 2017, KKR Capital Markets entered into a 364-day revolving credit agreement (the "KCM Short-Term Credit Agreement") with a major financial institution for use in KKR's capital markets business. This financial institution also provides the existing KCM Credit Agreement. The KCM Short-Term Credit Agreement provides for revolving borrowings of up to \$750 million, expires on June 28, 2018, and ranks pari passu with the KCM Credit Agreement. Borrowings under the KCM Short-Term Credit Agreement may only be used to facilitate the settlement of debt transactions syndicated by KKR's capital markets business. Obligations under the KCM Short-Term Credit Agreement are limited solely to entities involved in KKR's capital markets business, and liabilities under the KCM

Short-Term Credit Agreement are non-recourse to other parts of KKR. For the three and nine months ended September 30, 2017, \$145 million was borrowed and repaid under the KCM Short-Term Credit Agreement.

Preferred Units

For a discussion of KKR's Series A and Series B Preferred Units, see Note 15 "Equity" to the audited financial statements and "--Liquidity Needs--Preferred Units" in the management's discussion and analysis of financial condition and results of operations, each of which is included in our Annual Report on Form 10-K.

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Common Units

On May 16, 2014, KKR & Co. L.P. filed a registration statement with the Securities and Exchange Commission for the sale by us from time to time of up to 5,000,000 common units of KKR & Co. L.P. to generate cash proceeds (a) up to (1) the amount of withholding taxes, social benefit payments or similar payments payable by us in respect of awards granted pursuant to the Equity Incentive Plan, and (2) the amount of cash delivered in respect of awards granted pursuant to the Equity Incentive Plan that are settled in cash instead of common units; and (b) to the extent the net proceeds from the sale of common units exceeds the amounts due under clause (a), for general corporate purposes. This registration statement expired on June 4, 2017 with 4,173,039 common units issued and sold.

Liquidity Needs

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

continue to grow our business, including seeding new strategies, funding our capital commitments made to existing and future funds, co-investments and any net capital requirements of our capital markets companies and otherwise supporting investment vehicles which we sponsor;

warehouse investments in portfolio companies or other investments for the benefit of one or more of our funds, vehicles, accounts or CLOs pending the contribution of committed capital by the investors in such vehicles, and advancing capital to them for operational or other needs;

service debt obligations including the payment of obligations upon maturity or redemption, as well as any contingent liabilities that may give rise to future cash payments;

fund cash operating expenses, including litigation matters;

pay amounts that may become due under our tax receivable agreement with KKR Holdings;

make cash distributions in accordance with our distribution policy for our common units or the terms of our preferred units;

underwrite commitments, advance loan proceeds and fund syndication commitments within our capital markets business;

make future purchase price payments in connection with our proprietary investments, such as our strategic manager partnership with Marshall Wace, to the extent not paid by newly issued common units;

acquire other assets for our Principal Activities segment, including other businesses, investments and assets; and

repurchase KKR & Co. L.P. common units pursuant to the unit repurchase program announced on October 27, 2015 and subsequently increased on February 9, 2017.

KKR & Co. L.P. Unit Repurchase Program

On October 27, 2015, KKR announced the authorization of a program providing for the repurchase by KKR of up to \$500 million in the aggregate of its outstanding common units. On February 9, 2017, KKR announced the authorization of an incremental \$250 million under this unit repurchase program. Under this unit repurchase program, units 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 unit 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 to repurchase common units. The program does not require KKR to repurchase any specific number of common units, and the program may be suspended, extended, modified or discontinued at any time. Since inception of the unit repurchase program through October 23, 2017, KKR has repurchased and canceled approximately 31.7 million outstanding common units for approximately \$459 million. There is \$291 million remaining as of October 23, 2017 under the current repurchase program. No units were repurchased during the first nine months of 2017.

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In addition to the purchases of common units above, (1) cash may be used to pay the amount of withholding taxes, social benefit payments or similar payments payable by KKR in respect of awards granted pursuant to the Equity Incentive Plan and (2) cash may be delivered in respect of certain awards granted pursuant to the Equity Incentive Plan and Other Exchangeable Securities. During the first nine months of 2017, KKR canceled equity awards representing 3.1 million common units to satisfy tax and cash-settlement obligations of \$58.0 million in connection with their vesting. See "--Item 2. Unregistered Sales of Equity Securities and Use of Proceeds."

Capital Commitments

The agreements governing our active investment funds generally require the general partners of the funds to make minimum capital commitments to such funds, which usually range from 2% to 8% of a fund's total capital commitments at final closing; however, the size of our general partner commitment to certain funds pursuing newer strategies may exceed this range. The following table presents our uncalled commitments to our active investment funds as of September 30, 2017:

	Uncalled Commitments (\$ in thousands)
Private Markets	
Americas Fund XII	\$ 975,000
Asian Fund III	500,000
Health Care Strategic Growth Fund	150,000
Real Estate Partners Americas II	150,000
Next Generation Technology Growth Fund	97,100
Energy Income and Growth	86,400
European Fund IV	79,800
Global Infrastructure Investors II	74,200
Real Estate Partners Europe	58,300
Real Estate Credit Opportunity Partners	45,000
Other Private Markets Vehicles	332,500
Total Private Markets Commitments	2,548,300
Public Markets	
Special Situations Fund II	173,700
Lending Partners Europe	26,700
Lending Partners III	24,700
Other Public Markets Vehicles	164,000
Total Public Markets Commitments	389,100
Total Uncalled Commitments	\$ 2,937,400

Other Commitments

In addition to the uncalled commitments to our investment funds as shown above, KKR has entered into contractual commitments with respect to (i) the purchase of investments and other assets in its Principal Activities segment, and (ii) underwriting transactions, debt financing, and syndications in our Capital Markets segment. As of September 30, 2017, these commitments amounted to \$93.4 million and \$255.7 million, respectively. Whether these amounts are actually funded, in whole or in part, depends on the contractual terms of such commitments, including the satisfaction or waiver of any conditions to closing or funding. The unfunded commitments shown for our Capital Markets segment

are shown without reflecting arrangements that may reduce the actual amount of contractual commitments shown. Our capital market business entered into an arrangement that reduces our risk when underwriting certain debt transactions. In the case of purchases of investments or assets in our Principal Activities segment, the amount to be funded includes amounts that are intended to be syndicated to third parties, and the actual amounts to be funded may be less than shown.

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Prisma Capital Partners

As of September 30, 2017, no amounts were due under the contingent consideration arrangement in connection with the acquisition of the equity interests of Prisma on October 1, 2012. The final measurement date for such contingent consideration was June 30, 2017. On June 1, 2017, KKR completed its previously announced transaction to combine Pacific Alternative Asset Management Company, LLC, or PAAMCO, with Prisma Capital Partners LP, formerly known as KKR Prisma. See "--Overview - Business Segments - Public Markets."

Investment in Marshall Wace

On November 2, 2015, KKR entered into a long-term strategic relationship with Marshall Wace and its affiliates and acquired a 24.9% interest in Marshall Wace through a combination of cash and common units. Subject to the exercise of a put option by Marshall Wace or a call option by KKR, at subsequent closings to occur in the second, third and fourth years following the initial closing described above, and subject to satisfaction or waiver of certain closing conditions, including regulatory approvals, KKR may at each such closing subscribe (or be required to subscribe) for an incremental 5% equity interest, for ultimate aggregate ownership of up to 39.9% of Marshall Wace. The exercise of such options would require the use of cash and/or KKR common units. KKR's investment in Marshall Wace is accounted for using the equity method of accounting.

Due to the exercise of one of the options agreed to between Marshall Wace and KKR, KKR expects to acquire an additional 5.0% interest in Marshall Wace in the fourth quarter of 2017. The acquisition is expected to be completed with a combination of cash and common units.

Tax Receivable Agreement

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

We have entered into a tax receivable agreement with KKR Holdings, which requires our intermediate holding companies to pay to KKR Holdings, or to current and former principals who have exchanged KKR Holdings units for KKR common units as transferees of KKR Group Partnership Units, 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding companies realize as a result of the increase in tax basis described above, as well as 85% of the amount of any such savings the intermediate holding companies realize as a result of increases in tax basis that arise due to future payments under the agreement. We expect our intermediate holding companies to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. In the event that other of our current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if we become

taxable as a corporation for U.S. federal income tax purposes, we expect that each will become subject to a tax receivable agreement with substantially similar terms.

These payment obligations are obligations of our intermediate holding companies and not the KKR Group Partnerships. As such, cash payments received by common unitholders may vary from those received by holders of KKR Group Partnership Units held by KKR Holdings and its current and former principals to the extent payments are made to those parties under the tax receivable agreement. Payments made under the tax receivable agreement are required to be made within 90 days of the filing of the tax returns of our intermediate holding companies, which may result in a timing difference between the tax savings received by KKR's intermediate holdings companies and the cash payments made to the selling holders of KKR Group Partnership Units.

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For the three and nine months ended September 30, 2017 and 2016, no cash payments have been made under the tax receivable agreement. As of September 30, 2017, \$4.2 million of cumulative income tax savings have been realized. See "-Liquidity-Other Liquidity Needs- Contractual Obligations, Commitments and Contingencies" for a discussion of amounts payable and cumulative cash payments made under this agreement.

Distributions

A distribution of \$0.17 per common unit has been declared, which will be paid on November 21, 2017 to holders of record of common units as of the close of business on November 6, 2017. Under KKR's current distribution policy for its common units, KKR intends to make equal quarterly distributions to holders of common units in an amount of \$0.17 per common unit per quarter, beginning with the financial results reported for the first quarter of 2017.

A distribution of \$0.421875 per Series A Preferred Unit has been declared and set aside for payment on December 15, 2017 to holders of record of Series A Preferred Units as of the close of business on December 1, 2017. A distribution of \$0.406250 per Series B Preferred Unit has been declared and set aside for payment on December 15, 2017 to holders of record of Series B Preferred Units as of the close of business on December 1, 2017.

The declaration and payment of any future distributions on preferred or common units are subject to the discretion of the board of directors of the general partner of KKR & Co. L.P. and the terms of its limited partnership agreement.

There can be no assurance that future distributions will be made as intended or at all, that unitholders will receive sufficient distributions to satisfy payment of their tax liabilities as limited partners of KKR & Co. L.P. or that any particular distribution policy for common units will be maintained. Furthermore, the declaration and payment of distributions by the KKR Group Partnerships and our other subsidiaries may also be subject to legal, contractual and regulatory restrictions, including restrictions contained in our debt agreements and the preferred units of the KKR Group Partnerships.

When KKR & Co. L.P. receives distributions from the KKR Group Partnerships (the holding companies of the KKR business), KKR Holdings receives its pro rata share of such distributions from the KKR Group Partnerships.

Other Liquidity Needs

We may also be required to fund various underwriting, syndications and fronting commitments in our capital markets business in connection with the underwriting of loans, securities or other financial instruments, which has increased in significance in the first nine months of 2017 and may continue to be significant in future quarters. We generally expect that these commitments will be syndicated to third parties or otherwise fulfilled or terminated, although we may in some instances elect to retain a portion of the commitments for our own investment.

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Contractual Obligations, Commitments and Contingencies

In the ordinary course of business, we and our consolidated funds and CFEs enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of September 30, 2017 excluding consolidated funds and CFEs with a reconciliation of such amounts to the anticipated future cash payments of KKR including consolidated funds and CFEs.

Types of Contractual Obligations	Payments due by Period				Total
	<1 Year	1-3 Years	3-5 Years	>5 Years	
	(\$ in millions)				
Uncalled commitments to investment funds ⁽¹⁾	\$2,937.4	\$—	\$—	\$—	\$2,937.4
Debt payment obligations ⁽²⁾	—	500.0	—	2,139.8	2,639.8
Interest obligations on debt ⁽³⁾	143.2	282.5	218.8	2,027.3	2,671.8
Underwriting commitments ⁽⁴⁾	137.3	—	—	—	137.3
Lending commitments ⁽⁵⁾	118.4	—	—	—	118.4
Purchase commitments ⁽⁶⁾	77.6	15.5	0.3	—	93.4
Lease obligations	51.7	95.0	31.9	17.0	195.6
Corporate real estate ⁽⁷⁾	—	292.5	—	—	292.5
Total Contractual Obligations of KKR	3,465.6	1,185.5	251.0	4,184.1	9,086.2
Plus: Uncalled commitments of consolidated funds ⁽⁸⁾	2,285.1	—	—	—	2,285.1
Plus: Debt payment obligations of consolidated funds and CFEs ⁽⁹⁾	740.7	1,475.2	606.4	14,101.2	16,923.5
Plus: Interest obligations of consolidated funds and CFEs ⁽¹⁰⁾	567.1	1,132.6	1,054.2	2,257.8	5,011.7
Total Consolidated Contractual Obligations	\$7,058.5	\$3,793.3	\$1,911.6	\$20,543.1	\$33,306.5

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

Amounts include (i) 2020 Senior Notes, 2043 Senior Notes and 2044 Senior Notes of \$2.0 billion gross of unamortized discount, (ii) KFN 2032 Senior notes of \$0.4 billion gross of unamortized discount and (iii) KFN (2) Junior Subordinated Notes of \$0.2 billion, gross of unamortized discount. KFN's debt obligations are non-recourse to KKR beyond the assets of KFN.

These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming the debt outstanding at September 30, 2017 is not repaid until its (3) maturity. Future interest rates are assumed to be those in effect as of September 30, 2017, including both variable and fixed rates, as applicable, provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.

(4) Represents various commitments in our capital markets business in connection with the underwriting of loans, securities and other financial instruments. These commitments are shown net of amounts syndicated.

(5) Represents obligations in our capital markets business to lend under various revolving credit facilities.

(6) Represents commitments of KKR and KFN to fund the purchase of various investments.

Represents the purchase price due upon delivery of a new KKR office being constructed, all or a portion of which (7) represents construction financing obtained by the developer and may be refinanced upon delivery of the completed office.

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- (8) Represents uncalled commitments of our consolidated funds excluding KKR's portion of uncalled commitments as the general partner of the respective funds.

Amounts include (i) financing arrangements entered into by our consolidated funds with the objective of providing liquidity to the funds of \$2.5 billion, (ii) debt securities issued by our consolidated CLOs of \$9.4 billion and (iii) debt securities issued by our consolidated CMBS entities of \$5.0 billion. Debt securities issued by consolidated (9)CLOs and CMBS entities are supported solely by the investments held at the CLO and CMBS vehicles and are not collateralized by assets of any other KKR entity. Obligations under financing arrangements entered into by our consolidated funds are generally limited to our pro-rata equity interest in such funds. Our management companies bear no obligations to repay any financing arrangements at our consolidated funds.

The interest obligations on debt of our consolidated funds and CFEs represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming the debt outstanding at (10)September 30, 2017 is not repaid until its maturity. Future interest rates are assumed to be those in effect as of September 30, 2017, including both variable and fixed rates, as applicable, provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.

The commitment table above excludes contractual amounts owed under the tax receivable agreement because the ultimate amount and timing of the amounts due are not presently known. As of September 30, 2017, a payable of \$141.9 million has been recorded in due to affiliates in the condensed consolidated financial statements representing management's best estimate of the amounts currently expected to be owed under the tax receivable agreement. As of September 30, 2017, approximately \$24.0 million of cumulative cash payments have been made under the tax receivable agreement. See "—Liquidity Needs—Tax Receivable Agreement."

We may incur contingent liabilities for claims that may be made against us in the future. We enter into contracts that contain a variety of representations, warranties and covenants, including indemnifications. For example, certain of our investment funds and KFN have provided certain indemnities relating to environmental and other matters and have provided nonrecourse carve-out guarantees for fraud, willful misconduct and other customary wrongful acts, each in connection with the financing of certain real estate investments that we have made. In addition, we have also provided credit support to certain of our subsidiaries' obligations in connection with a limited number of investment vehicles that we manage. For example, KKR has guaranteed the obligations of a general partner to post collateral on behalf of its investment vehicle in connection with such vehicle's derivative transactions, and we have also agreed to be liable for certain investment losses and/or for providing liquidity in the events specified in the governing documents of another investment vehicle. Our maximum exposure under these arrangements is currently unknown as our liabilities for these matters would require a claim to be made against us in the future.

The partnership documents governing our carry-paying funds, including funds and vehicles relating to private equity, mezzanine, infrastructure, energy, direct lending and special situations investments, generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation requiring the general partner to return amounts to the fund for distribution to the fund investors at the end of the life of the fund. Under a clawback obligation, upon the liquidation of a fund, the general partner is required to return, typically on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, including the effects of any performance thresholds. Excluding carried interest received by the general partners of funds that were not contributed to us in the KPE Transaction, as of September 30, 2017, \$47.3 million of carried interest was subject to this clawback obligation, assuming that all applicable carry paying funds were liquidated at their September 30, 2017 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been \$1,990.7 million. Carried interest is recognized in the statement of operations based on the contractual conditions set forth in the agreements governing the fund as if the

fund were terminated and liquidated at the reporting date and the fund's investments were realized at the then estimated fair values. Amounts earned pursuant to carried interest are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment amounts earned decrease or turn negative in subsequent periods, recognized carried interest will be reversed and to the extent that the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, a clawback obligation would be recorded. For funds that are consolidated, this clawback obligation, if any, is reflected as an increase in noncontrolling interests in the consolidated statements of financial condition. For funds that are not consolidated, this clawback obligation, if any, is reflected as a reduction of our investment balance as this is where carried interest is initially recorded.

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Prior to the KPE Transaction in 2009, certain principals who received carried interest distributions with respect to certain private equity funds contributed to us had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of such private equity funds to repay amounts to fund investors pursuant to the general partners' clawback obligations. The terms of the KPE Transaction require that principals remain responsible for any clawback obligations relating to carry distributions received prior to the KPE Transaction, up to a maximum of \$223.6 million. Through investment realizations, the principals' potential exposure has been reduced to \$72.2 million as of September 30, 2017. Using valuations as of September 30, 2017, \$19.7 million would be due with respect to the clawback obligation required to be funded by principals. Carry distributions arising subsequent to the KPE Transaction may give rise to clawback obligations that may be allocated generally to us and to persons who participate in the carry pool. In addition, guarantees of or similar arrangements relating to clawback obligations in favor of third party investors in an individual investment partnership by entities we own may limit distributions of carried interest more generally.

Off Balance Sheet Arrangements

Other than contractual commitments and other legal contingencies incurred in the normal course of our business, we do not have any off-balance sheet financings or liabilities.

Critical Accounting Policies

The preparation of our condensed consolidated financial statements in accordance with GAAP requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of fees, expenses and investment income. Our management bases these estimates and judgments on available information, historical experience and other assumptions that we believe are reasonable under the circumstances. However, these estimates, judgments and assumptions are often subjective and may be impacted negatively based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from those estimated, judged or assumed, revisions are included in the condensed consolidated financial statements in the period in which the actual amounts become known. We believe our critical accounting policies could potentially produce materially different results if we were to change underlying estimates, judgments or assumptions.

The following discussion details certain of our critical accounting policies. For a full discussion of all critical accounting policies, please see the notes to the condensed consolidated financial statements "--Item 1. Condensed Consolidated Financial Statements (Unaudited)--Summary of Significant Accounting Policies."

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 under current market conditions. Except for certain of KKR's equity method investments and 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.

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, credit investments and securities sold short.

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We classified 7.3% of total investments measured and reported at fair value as Level I at September 30, 2017.

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.

We classified 38.3% of total investments measured and reported at fair value as Level II at September 30, 2017.

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.

We classified 54.4% of total investments measured and reported at fair value as Level III at September 30, 2017. The valuation of our Level III investments at September 30, 2017 represents management's best estimate of the amounts that we would anticipate realizing on the sale of these investments in an orderly transaction at such date.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, 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. Our 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 us 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 we recognize 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. We do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably affect the quoted price.

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.

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Investments and Debt Obligations of Consolidated CLO Vehicles: Investments of consolidated CLO vehicles 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

Financial assets and liabilities categorized as Level III consist primarily of the following:

Private Equity Investments: We generally employ 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. In certain cases the results of the discounted cash flow approach can be significantly impacted by these estimates. Other inputs are also used in both methodologies. Also, as discussed in greater detail under "—Business Environment" in this report and "Risk Factors—Risks Related to the Assets We Manage—Our investments are impacted by various economic conditions that are difficult to quantify or predict, but may have a significant adverse impact on the value of our investments" in our Annual Report on Form 10-K, a change in interest rates could have a significant impact on valuations. 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, we consider, 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, we estimated probability of such a 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. Across the total Level III private equity investment portfolio, including investments in both consolidated and unconsolidated investment funds, approximately 78% of the fair value is derived from investments that are valued based exactly 50% on market comparables and 50% on a discounted cash flow analysis. Less than 5% of the fair value of this Level III private equity investment portfolio is derived from investments that are valued either based 100% on market comparables or 100% on a discounted cash flow analysis. As of September 30, 2017, the overall weights ascribed to the market comparables methodology, the discounted cash flow methodology and a methodology based on pending sales for this portfolio of Level III private equity investments were 43%, 48% and 9%, respectively.

When an illiquidity discount is to be applied, we seek to take a uniform approach across our portfolio and generally apply a minimum 5% discount to all private equity investments. We then evaluate such private equity investments to determine if

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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 we are unable to freely 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, we determine the amount of any incremental illiquidity discount to be applied above the 5% minimum, and during the time we hold 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 us in our 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 Assets 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, and are currently higher than, 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, and certain real estate investments do not include a minimum illiquidity discount. The valuations of real assets investments also use other inputs.

On a segment basis, our energy real asset investments in oil and gas producing properties as of September 30, 2017 had a fair value of approximately \$550 million. Based on this fair value, we estimate that an immediate, hypothetical 10% decline in the fair value of these energy investments from one or more adverse movements to the investments' valuation inputs would result in a decline in investment income of \$55.0 million and a decline in net income attributable to KKR & Co. L.P. of \$32.0 million, after deducting amounts that are attributable to noncontrolling interests held by KKR Holdings L.P. As of September 30, 2017, if we were to value our energy investments using only the commodity prices as quoted on indices and did not use long-term commodity price forecasts, and also held all

other inputs to their valuation constant, we estimate that investment income would have been approximately \$34 million lower, resulting in a lower amount of net income attributable to KKR & Co. L.P. of approximately 58.2% of the overall decrease in investment income, after deducting amounts that are attributable to noncontrolling interests held by KKR Holdings L.P.

These hypothetical declines relate only to investment income. There would be no current impact on KKR's carried interest since all of the investment funds which hold these types of energy investments have investment values that are either below their cost or not currently accruing carried interest. Additionally, there would be no impact on fees since fees earned from investment funds which hold investments in oil and gas producing properties are based on either committed capital or capital invested.

For GAAP purposes, where KKR holds energy investments consisting of working interests in oil and gas producing properties directly and not through an investment fund, such working interests are consolidated based on the proportion of the working interests held by us. Accordingly, we reflect the assets, liabilities, revenues, expenses, investment income and cash

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flows of the consolidated working interests on a gross basis and changes in the value of these energy investments are not reflected as unrealized gains and losses in the consolidated statements of operations. Accordingly, a change in fair value for these investments does not result in a decrease in net gains (losses) from investment activities, but may result in an impairment charge reflected in general, administrative and other expenses. For segment purposes, these directly held working interests are treated as investments and changes in value are reflected in our segment results as unrealized gains and losses.

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 us 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, we generally employ the same valuation methodologies as described above for private equity investments when valuing these other investments.

Investments and Debt Obligations of Consolidated CMBS Vehicles: Under ASU 2014-13, we measure CMBS investments 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 our Level III investment valuations as described above are included in Note 5 "Fair Value Measurements" of the financial statements included elsewhere in this report. We utilize several unobservable pricing inputs and assumptions in determining the fair value of our Level III investments. These unobservable pricing inputs and assumptions may differ by investment and in the application of our valuation methodologies. Our reported fair value estimates could vary materially if we had chosen to incorporate different unobservable pricing inputs and other assumptions or, for applicable investments, if we only used either the discounted cash flow methodology or the market comparables methodology instead of assigning a weighting to both methodologies. For valuations determined for periods other than at year end, various inputs may be estimated prior to the end of the relevant period.

Level III Valuation Process

The valuation process involved for Level III measurements is completed on a quarterly basis and is designed to subject the valuation of Level III investments to an appropriate level of consistency, oversight, and review.

For Private Markets investments classified as Level III, investment professionals prepare preliminary valuations based on their evaluation of financial and operating data, company specific developments, market valuations of comparable companies and other factors. These preliminary valuations are reviewed by an independent valuation firm engaged by KKR to perform certain procedures in order to assess the reasonableness of KKR's valuations annually for all Level III investments in Private Markets and quarterly for investments other than certain investments, which have values less than pre-set value thresholds and which in the aggregate comprise less than 5% of the total value of KKR's Level III Private Markets investments. The valuations of certain real asset investments are determined solely by an independent valuation firm without the preparation of preliminary valuations by our investment professionals, and instead such independent valuation firm relies on valuation information available to it as a broker or valuation firm. For credit investments and debt obligations of consolidated CMBS vehicles, an independent valuation firm is generally engaged

quarterly by KKR with respect to most investments classified as Level III. The valuation firm either provides a value or provides a valuation range from which KKR's investment professionals select a point in the range to determine the preliminary valuation or performs certain procedures in order to assess the reasonableness and provide positive assurance of KKR's valuations. After reflecting any input from the independent valuation firm, the valuation proposals are submitted to their respective valuation sub-committees. As of September 30, 2017, less than 6% of the total value of our Level III credit investments are not valued with the engagement of an independent valuation firm.

KKR has a global valuation committee comprised of senior employees including investment professionals and professionals from business operations functions, and includes one of our Co-Presidents and Co-Chief Operating Officers and our Chief Financial Officer, General Counsel and Chief Compliance Officer. The global valuation committee is assisted by valuation sub-committees and investment professionals for each business strategy. All preliminary Level III valuations are reviewed and approved by the valuation sub-committees for private equity, real estate, energy and infrastructure and credit, as applicable. For periods prior to the completion of the PAAMCO Prisma transaction, when Level III valuations were required to be performed on hedge fund investments, a valuation sub-committee for hedge funds reviewed these valuations. The valuation

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sub-committees are responsible for the review and approval of valuations in their respective business lines on a quarterly basis. The members of the valuation sub-committees are comprised of investment professionals, including the heads of each respective strategy, and professionals from business operations functions such as legal, compliance and finance, who are not primarily responsible for the management of the investments.

The global valuation committee provides general oversight of the valuation sub-committees. The global valuation committee is responsible for coordinating and implementing the firm's valuation process to ensure consistency in the application of valuation principles across portfolio investments and between periods. All valuations are subject to approval by the global valuation committee. When valuations are approved by the global valuation committee after reflecting any input from it, the valuations of Level III investments, as well as the valuations of Level I and Level II investments, are presented to the audit committee of the board of directors of the general partner of KKR & Co. L.P. and are then reported to the board of directors.

As of September 30, 2017, upon completion by, where applicable, an independent valuation firm of certain limited procedures requested to be performed by them on certain investments, the independent valuation firm concluded that the fair values, as determined by KKR, of those investments reviewed by them were reasonable. The limited procedures did not involve an audit, review, compilation or any other form of examination or attestation under generally accepted auditing standards and were not conducted on all Level III investments. We are responsible for determining the fair value of investments in good faith, and the limited procedures performed by an independent valuation firm are supplementary to the inquiries and procedures that we are required to undertake to determine the fair value of the commensurate investments.

As described above, Level II and Level III investments were valued using internal models with significant unobservable inputs and our determinations of the fair values of these investments may differ materially from the values that would have resulted if readily observable inputs had existed. Additional external factors may cause those values, and the values of investments for which readily observable inputs exist, to increase or decrease over time, which may create volatility in our earnings and the amounts of assets and partners' capital that we report from time to time.

Changes in the fair value of investments impacts the amount of carried interest that is recognized as well as the amount of investment income that is recognized for investments held directly and through our consolidated funds as described below. We estimate that an immediate 10% decrease in the fair value of investments held directly and through consolidated investment funds generally would result in a commensurate change in the amount of net gains (losses) from investment activities for investments held directly and through investment funds and a more significant impact to the amount of carried interest recognized, regardless of whether the investment was valued using observable market prices or management estimates with significant unobservable pricing inputs. With respect to consolidated investment funds, the impact that the consequential decrease in investment income would have on net income attributable to KKR would generally be significantly less than the amount described above, given that a majority of the change in fair value of our consolidated funds would be attributable to noncontrolling interests and therefore we are only impacted to the extent of our carried interest and our balance sheet investments.

As of September 30, 2017, there were no investments which represented greater than 5% of total investments on a GAAP basis. On a segment basis, as of September 30, 2017, investments which represented greater than 5% of total reportable segments investments consisted of First Data Corporation and USI, Inc. (financial services sector) valued at \$1,279.1 million and \$503.7 million, respectively. Our investment income can be impacted by volatility in the public markets related to our holdings of publicly traded securities, including our sizable holdings of First Data Corporation. For the quarter ended September 30, 2017, the reduction in the stock price of First Data Corporation reduced economic net income on a segment basis by approximately \$27 million. For the nine months ended September 30, 2017, the increase in the stock price of First Data Corporation increased economic net income on a segment basis by

approximately \$355 million. See "--Business Environment" for a discussion on the impact of global equity markets on our financial condition and "--Segment Balance Sheet" for additional information regarding our largest holdings on a segment basis in our Annual Report on Form 10-K.

Recognition of Investment Income

Investment income consists primarily of the net impact of: (i) realized and unrealized gains and losses on investments, (ii) dividends, (iii) interest income, (iv) interest expense and (v) foreign exchange gains and losses relating to mark-to-market activity on foreign exchange forward contracts, foreign currency options, foreign denominated debt and debt securities issued by consolidated CFEs. Unrealized gains or losses resulting from the aforementioned activities are included in net gains (losses) from investment activities. Upon disposition of an instrument that is marked-to-market, previously recognized unrealized gains or losses are reversed and a realized gain or loss is recognized. While this reversal generally does not significantly impact the

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net amounts of gains (losses) that we recognize from investment activities, it affects the manner in which we classify our gains and losses for reporting purposes.

Certain of our investment funds are consolidated. When a fund is consolidated, the portion of our funds' investment income that is allocable to our carried interests and capital investments is not shown in the condensed consolidated financial statements. For funds that are consolidated, all investment income (loss), including the portion of a funds' investment income (loss) that is allocable to KKR's carried interest, is included in investment income (loss) on the consolidated statements of operations. The carried interest that KKR retains in net income (loss) attributable to KKR & Co. L.P. is reflected as an adjustment to net income (loss) attributable to noncontrolling interests. However, because certain of our funds remain consolidated and because we hold a minority economic interest in these funds' investments, our share of the investment income is less than the total amount of investment income presented in the condensed consolidated financial statements for these consolidated funds.

Recognition of Carried Interest in the Statement of Operations

Carried interest entitles the general partner of a fund to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduces noncontrolling interests' attributable share of those earnings. Carried interest is earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reversed and reflected as losses in the statement of operations. For funds that are not consolidated, amounts earned pursuant to carried interest are included in fees and other in the consolidated statements of operations. Amounts earned pursuant to carried interest at consolidated funds are eliminated from fees and other upon consolidation of the fund and are included as investment income (loss) in net gains (losses) from investment activities along with all of the other investment gains and losses at the consolidated fund.

Carried interest is recognized in the statement of operations based on the contractual conditions set forth in the agreements governing the fund as if the fund were terminated and liquidated at the reporting date and the fund's investments were realized at the then estimated fair values. Due to the extended durations of our private equity funds, we believe that this approach results in income recognition that best reflects our periodic performance in the management of those funds. Amounts earned pursuant to carried interest are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment amounts earned decrease or turn negative in subsequent periods, recognized carried interest will be reversed and to the extent that the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, a clawback obligation would be recorded. For funds that are not consolidated, this clawback obligation, if any, is reflected as a reduction of our investment balance as this is where carried interest is initially recorded. For funds that are consolidated, this clawback obligation, if any, is reflected as an increase in noncontrolling interests in the consolidated statements of financial condition.

Prior to January 1, 2016, most of our historical private equity funds that provide for carried interest do not have a preferred return. For these funds, the management company is required to refund up to 20% of any management fees earned from its limited partners in the event that the fund recognizes carried interest. At such time as the fund recognizes carried interest in an amount sufficient to cover 20% of the management fees earned or a portion thereof, a liability due to the fund's limited partners is recorded and revenue is reduced for the amount of the carried interest recognized, not to exceed 20% of the management fees earned. The refunds to the limited partners are paid, and liabilities relieved, at such time that the underlying investment is sold and the associated carried interest is realized. In the event that a fund's carried interest is not sufficient to cover all or a portion of the amount that represents 20% of the earned management fees, such management fees would be retained and not returned to the funds' limited partners.

Most of our newer investment funds that provide for carried interest, however, have a preferred return. In this case, the management company does not refund the management fees earned from the limited partners of the fund as described above. Instead, the management fee is effectively returned to the limited partners through a reduction of the realized gain on which carried interest is calculated. To calculate the carried interest, KKR calculates whether a preferred return has been achieved based on an amount that includes all of the management fees paid by the limited partners as well as the other capital contributions and expenses paid by them to date. To the extent the fund has exceeded the preferred return at the time of a realization event, and subject to any other conditions for the payment of carried interest like netting holes, carried interest is distributed to the general partner. Until the preferred return is achieved, no carried interest is recorded. Thereafter, the general partner is entitled to a catch up allocation such that the general partner's carried interest is paid in respect of all of the fund's net gains, including the net gains used to pay the preferred return, until the general partner has received the full percentage amount of carried interest that the general partner is entitled to under the terms of the fund. In general, investment funds that entitle the

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management company to receive an incentive fee have a preferred return and are calculated on a similar basis that takes into account management fees paid.

Recently Issued Accounting Pronouncements

For a full discussion of recently issued accounting pronouncements, please see the notes to the condensed consolidated financial statements "--Item 1. Condensed Consolidated Financial Statements (Unaudited)--Summary of Significant Accounting Policies."

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There was no material change in our market risks during the three and nine months ended September 30, 2017. For additional information, please refer to our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 24, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that the information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and such information is accumulated and communicated to management, including the Co-Chief Executive Officers and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired controls.

As of the period ended September 30, 2017, we carried out an evaluation, under the supervision and with the participation of our management, including the Co-Chief Executive Officers and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Co-Chief Executive Officers and Chief Financial Officer have concluded that, as of the period ended September 30, 2017, our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) of the Exchange Act) occurred during the three or nine months ended September 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The section entitled “Litigation” appearing in Note 17 “Commitments and Contingencies” of our financial statements included elsewhere in this report is incorporated herein by reference.

ITEM 1A. RISK FACTORS.

For a discussion of our potential risks and uncertainties, see the information under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on February 24, 2017.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Common Unit Repurchases in the Third Quarter of 2017

As announced on October 27, 2015 and February 9, 2017, KKR is authorized to repurchase up to \$750 million in the aggregate of its outstanding common units. Under this unit repurchase program, units 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 unit 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 to repurchase common units. The program does not require KKR to repurchase any specific number of common units, and the program may be suspended, extended, modified or discontinued at any time.

The table below sets forth the information with respect to purchases made by or on behalf of KKR & Co. L.P. or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common units during the third quarter of 2017.

Issuer Purchases of Common Units

(amounts in thousands, except unit and per unit amounts)

	Total Number of Units Purchased	Average Price Paid Per Units	Cumulative Number of Units Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Units that May Yet Be Purchased Under the Plans or Programs
Month #1 (July 1, 2017 to July 31, 2017)	—	\$	—31,674,162	\$ 291,225
Month #2 (August 1, 2017 to August 31, 2017)	—	\$	—31,674,162	\$ 291,225
Month #3 (September 1, 2017 to September 30, 2017)	—	\$	—31,674,162	\$ 291,225
Total through September 30, 2017	—			
Purchases subsequent to September 30, 2017: (October 1, 2017 to October 26, 2017)	—	\$	—31,674,162	\$ 291,225
Total through October 26, 2017	—			

In addition to the purchases of common units above, (1) cash may be used to pay the amount of withholding taxes, social benefit payments or similar payments payable by KKR in respect of awards granted pursuant to the Equity Incentive Plan and (2) cash may be delivered in respect of certain awards granted pursuant to the Equity Incentive Plan and Other Exchangeable Securities. During 2017, KKR canceled equity awards representing 3.1 million common

units to satisfy tax and cash-settlement obligations of \$58.0 million in connection with their vesting, bringing cumulative cancellations of equity awards representing 8.2 million common units to satisfy tax and cash-settlement obligations of approximately \$136.9 million since October 27, 2015.

During the third quarter of 2017, 3,163,286 KKR Group Partnership Units were exchanged by (i) KKR Holdings and (ii) holders of other exchangeable securities issued in connection with the acquisition of Avoca for an equal number of our common units. This resulted in an increase in our ownership of the KKR Group Partnerships and a corresponding decrease in the ownership of the KKR Group Partnerships by KKR Holdings and the other exchangeable security holders. In October 2017, an additional 1,688,292 common units were issued to one or more holders of other exchangeable securities in connection with the acquisition of Avoca.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

On November 2, 2017, the conflicts committee of the board of directors of our Managing Partner consented to the allocation by KKR Holdings of 2,500,000 KKR Holdings units to each of our Co-Chief Executive Officers, Henry Kravis and George Roberts. The KKR Holdings units will vest in five equal annual installments, beginning on October 1, 2018, in each case, subject to continued service through each vesting date (including full continued vesting upon death or disability and an additional two years of vesting following retirement). KKR Holdings units are exchangeable for our common units on a one-for-one basis, subject to vesting and minimum retained ownership requirements.

The KKR Holdings units allocated to our Co-Chief Executive Officers are outstanding but previously unallocated units, and consequently these allocations will not increase the number of KKR Holdings units outstanding that can be converted into our common units or outstanding KKR common units on a fully-diluted basis. If and when vested, these KKR Holdings units would not dilute our ownership interests in the KKR Group Partnerships.

ITEM 6. EXHIBITS.

The following is a list of all exhibits filed or furnished as part of this report:

Exhibit No.	Description of Exhibit
31.1	<u>Certification of Co-Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Co-Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.3	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.3	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Financial Condition as of September 30, 2017 and December 31, 2016, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and September 30, 2016, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and September 30, 2016; (iv) the Condensed Consolidated Statements of Changes in Equity for the nine months ended September 30, 2017 and September 30, 2016,

(v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and September 30, 2016, and (vi) the Notes to the Condensed Consolidated Financial Statements.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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SIGNATURES

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KKR & CO. L.P.

By: KKR Management LLC
Its General Partner

By: /s/ William J. Janetschek
William J. Janetschek
Chief Financial Officer
(principal financial and accounting officer of KKR Management LLC and authorized signatory)

DATE: November 3,
2017