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

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

Form 10-Q

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

Or

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

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

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

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

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

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

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

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

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

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

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

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KKR & CO. INC.

FORM 10-Q

For the Quarter Ended September 30, 2018

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as "outlook," "believe," "expect," "potential," "continue," "may," "should," "seek," "approximately," "predict," "intend," "will," "plan," "estimate," "anticipate," the negative version of these words, other comparable words or other statements that do not relate strictly to historical or factual matters. Without limiting the foregoing, statements regarding the declaration and payment of dividends on common or preferred stock of KKR, the timing, manner and volume of repurchases of common stock pursuant to a repurchase program, and the expected synergies and benefits from acquisitions, reorganizations or strategic partnerships, may constitute forward-looking statements. Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements or cause the anticipated benefits and synergies from transactions to not be realized. We believe these factors include those described under the section entitled "Risk Factors" in this report, in our Annual Report on Form 10-K for the year ended December 31, 2017 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018. These factors should be read in conjunction with the other cautionary statements that are included in this report and in our other filings with the U.S. Securities and Exchange Commission (the "SEC"). We do not undertake any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

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

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

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

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

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

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

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

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

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

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

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

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

(1) See Note 1 "Organization."

See notes to condensed consolidated financial statements.

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

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

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

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

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

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

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

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

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

See notes to condensed consolidated financial statements.

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

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

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

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

See notes to condensed consolidated financial statements.

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

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

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

See notes to condensed consolidated financial statements.

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

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

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

See notes to condensed consolidated financial statements.

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

1. ORGANIZATION

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

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Use of Estimates

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

Principles of Consolidation

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

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

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

An entity in which KKR holds a variable interest is a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, (b) the holders of the equity investment at risk (as a group) lack either the direct or indirect ability through voting rights or similar rights to make decisions about a legal entity's activities that have a significant effect on the success of the legal entity or the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the legal entity, their rights to receive the expected residual returns of the legal entity, or both and substantially all of the legal entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights. Limited partnerships and other similar entities where unaffiliated limited partners have not been granted (i) substantive participatory rights or (ii) substantive rights to either

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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 vehicle.

Investments

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

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

Investments held by Consolidated Investment Funds

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

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

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

Energy Investments held directly by KKR

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

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

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

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

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

Fair Value Option

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

Equity Method

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

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

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

Financial Instruments held by Consolidated CFEs

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

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

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

Fair Value Measurements

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

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

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

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

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

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

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

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

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument has recently been issued, whether the instrument is traded on an active exchange or in the secondary market, and current market conditions. To the extent that

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valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by KKR in determining fair value is greatest for instruments categorized in Level III. The variability and availability of the observable inputs affected by the factors described above may cause transfers between Levels I, II, and III, which KKR recognizes at the beginning of the reporting period.

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

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

Level II Valuation Methodologies

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

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

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

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

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

Level III Valuation Methodologies

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

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

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

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

Revenues

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

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

Fees and Other

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

Management Fees

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

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

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

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

Fee Credits

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

Transaction Fees

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

Monitoring Fees

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

Incentive Fees

KKR provides investment management services to certain investment funds, CLOs and other vehicles in exchange for a management fee as discussed above and, in some cases an incentive fee when KKR is not entitled to a carried interest. Incentive fee rates generally range from 5% to 20% of investment gains. Incentive fees are considered a form of variable consideration as these fees are subject to reversal, and therefore the recognition of such fees is deferred until the end of each fund's measurement period (which is generally one year) when the performance-based incentive fees become fixed and determinable. Incentive fees are generally paid within 90 days of the end of the investment vehicles' measurement period. After the contract is established, there are no significant judgments made when determining the transaction price.

Expense Reimbursements

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

Oil and Gas Revenue

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

Consulting Fees

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

Capital Allocation-Based Income

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

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

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

Income Taxes

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

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

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

Deferred Income Taxes

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period when the change is enacted.

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

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

2017 Tax Act

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

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

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Uncertain Tax Positions

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

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

Cash and Cash Equivalents Held at Consolidated Entities

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

Restricted Cash and Cash Equivalents

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

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

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

Cash Flows

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

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

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

Leases

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

Equity-Based Compensation

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

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

Income Taxes

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

Clarifying the Definition of a Business

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

Goodwill

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

Implementation Costs Incurred in a Cloud Computing Arrangement

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

Fair Value Measurement

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

Premium Amortization on Purchased Callable Debt Securities

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

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Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

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

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Notes to Condensed Consolidated Financial Statements (Continued)

3. NET GAINS (LOSSES) FROM INVESTMENT ACTIVITIES

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

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

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

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

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

(3) See Note 10 "Debt Obligations."

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Notes to Condensed Consolidated Financial Statements (Continued)

4. INVESTMENTS

Investments consist of the following:

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

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

Strategic BDC Partnership with FS Investments

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

5. FAIR VALUE MEASUREMENTS

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

Assets, at fair value:

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

Liabilities, at fair value:

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

Level III
Debt

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

6. FAIR VALUE OPTION

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

Other Assets consist of the following:

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

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

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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9. VARIABLE INTEREST ENTITIES

Consolidated VIEs

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

Unconsolidated VIEs

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

Investments in Unconsolidated Investment Funds

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

Investments in Unconsolidated CLO Vehicles

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

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

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

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10. DEBT OBLIGATIONS

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

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

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

KKR's borrowings consisted of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revolving Credit Facilities

KCM Credit Agreement

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

KCM Short-Term Credit Agreement

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

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

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

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

Notes Issuances

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

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

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

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

KFN Issued 5.200% Notes Due 2033

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

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

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

KFN Issued 5.400% Notes Due 2033

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

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

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

Other Debt Obligations

Financing Facilities of Consolidated Funds and Other

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

Debt Obligations of Consolidated CFEs

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

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

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

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

Debt Covenants

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

11. INCOME TAXES

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

12. EQUITY BASED COMPENSATION

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

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

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

Equity Incentive Plan

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

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

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

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

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

applicable vesting period.

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

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Notes to Condensed Consolidated Financial Statements (Continued)

Market Condition Awards

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

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

KKR Holdings Awards

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

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

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

13. RELATED PARTY TRANSACTIONS

Due from Affiliates consists of:

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

Due to Affiliates consists of:

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

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Notes to Condensed Consolidated Financial Statements (Continued)

14. SEGMENT REPORTING

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

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

After-tax Distributable Earnings

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

Modification of Segment Information

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

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

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

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

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

Revenues

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

Expenses

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

Assets

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

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Notes to Condensed Consolidated Financial Statements (Continued)

15. EQUITY

Stockholders' Equity

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

Upon Conversion, KKR's authorized capital stock consists of 5,000,000,000 shares, all with a par value of $0.01 per share, of which: (i) 3,500,000,000 are designated as Class A common stock; (ii) one is designated as Class B common stock; (iii) 499,999,999 are designated as Class C common stock; and (iv) 1,000,000,000 are designated as preferred stock, of which (a) 13,800,000 shares are designated as Series A Preferred Stock and (b) 6,200,000 shares are designated as Series B Preferred Stock.
Below is a summary of the reclassification from partnership equity accounts to equity accounts reflective of a corporation following the Conversion. See statements of changes in equity.

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

Retained Earnings
Upon Conversion, there was no Retained Earnings as a corporation.
Accumulated Other Comprehensive Income (Loss)
There was no impact to Accumulated Other Comprehensive Income (Loss) upon Conversion.
Class A, Class B and Class C Common Stock
Class A common stock and Class C common stock are non-voting and are not entitled to vote on any matter that is generally subject to a vote of the stockholders, except as expressly provided in the certificate of incorporation and bylaws or required by Delaware law or the rules of the NYSE. Class B common stock is voting and is entitled to one vote per share on any matter that is submitted to a vote of the stockholders generally. For matters on which our Class A common stock is entitled to vote, as provided in the certificate of incorporation or bylaws or required by Delaware law or the rules of the NYSE, so long as the ratio at which KKR Group Partnership Units are exchangeable for Class A common stock remains on a one-for-one basis, Class C common stock will vote together with Class A common stock as a single class and on an equivalent basis unless required otherwise by Delaware law, except Class C common stock will vote separately as a class on any amendment to the certificate of incorporation that changes certain terms, rights or preference of Class C common stock.
The holder of Class B common stock and holders of Class C common stock do not have any economic rights to receive dividends or receive distributions upon the dissolution, liquidation or winding up of KKR. Class A common stock, Class B common stock and Class C common stock are not entitled to preemptive rights, and, except in the case

of impermissible

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

Series A and Series B Preferred Stock

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

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

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

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

Share Repurchase Program

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

Noncontrolling Interests

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

Noncontrolling Interests in Consolidated Entities

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

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

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

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

Noncontrolling Interests held by KKR Holdings

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

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Notes to Condensed Consolidated Financial Statements (Continued)

The following tables present the calculation of total noncontrolling interests.

	Nine Months Ended September 30, 2018		
	Noncontrolling Interests in Consolidated Entities	Noncontrolling Interests Held by KKR Holdings	Total Noncontrolling Interests
Balance at the beginning of the period	$8,072,849	$4,793,475	$12,866,324
Net income (loss) attributable to noncontrolling interests [1]	1,121,441	864,520	1,985,961
Other comprehensive income (loss), net of tax [2]	(25,451)	(13,676)	(39,127)
Exchange of KKR Holdings Units to Class A Common Stock and Other[3]	(52,585)	(501,600)	(554,185)
Equity-based and other non-cash compensation	—	87,479	87,479
Capital contributions	3,534,670	2,367	3,537,037
Capital distributions	(2,023,277)	(167,950)	(2,191,227)
Changes in consolidation	370,307	—	370,307
Balance at the end of the period	$10,997,954	$5,064,615	$16,062,569

(1) Refer to the table below for calculation of net income (loss) attributable to noncontrolling interests held by KKR Holdings.

(2) With respect to noncontrolling interests held by KKR Holdings, 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 and other exchangeable securities exchanged for KKR & Co. Inc. Class A common stock during the reporting period. The exchange agreement with KKR Holdings provides for the exchange of KKR Group Partnership Units held by KKR Holdings for KKR & Co. Inc. Class A common stock.

Net income (loss) attributable to each of KKR & Co. Inc. Class A common stockholders and KKR Holdings, with the exception of certain tax assets and liabilities that are directly allocable to KKR & Co. Inc., is attributed based on the percentage of the weighted average KKR Group Partnership Units directly or indirectly held by KKR & Co. Inc. and KKR Holdings, each of which directly or indirectly 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. Inc. Class A common stock pursuant to the exchange agreement and (iii) the contribution of certain expenses borne entirely by KKR associated with the 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,	
	2018	2017	2018	2017
Net income (loss)	$1,352,269	$378,938	$3,521,559	$2,045,356
Less: Net income (loss) attributable to Redeemable Noncontrolling Interests	12,236	20,876	19,894	64,196
Less: Net income (loss) attributable to Noncontrolling Interests in consolidated entities	397,835	80,724	1,121,441	500,439
Less: Preferred Stock Dividends	8,341	8,341	25,023	25,023
Plus: Income tax expense (benefit) attributable to KKR & Co. Inc.	(131,912)	6,063	(84,947)	30,571
Net income (loss) attributable to KKR & Co. Inc. Class A Common Stockholders and KKR Holdings	$801,945	$275,060	$2,270,254	$1,486,269

Net income (loss) attributable to Noncontrolling Interests held by KKR Holdings	$293,659	$115,434	$864,520	$637,146

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Notes to Condensed Consolidated Financial Statements (Continued)

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 one year), 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. There was no impact to Redeemable Noncontrolling Interests upon Conversion.

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

The following table presents the rollforward of Redeemable Noncontrolling Interests:

	Nine Months Ended September 30, 2018
Balance at the beginning of the period	$610,540
Net income (loss) attributable to Redeemable Noncontrolling Interests	19,894
Capital contributions	450,330
Capital distributions	(10,189)
Balance at the end of the period	$1,070,575

Transfer of Interests Under Common Control and Other

On March 30, 2017, KKR reorganized KKR's Indian capital markets and credit asset management businesses to create KKR India Financial Investments Pte. Ltd. ("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. No gain or loss was recognized in the condensed consolidated financial statements.

On November 24, 2017, KIFL issued equity to an unaffiliated third-party. This transaction was accounted for as a subsidiary's direct issuance of its equity to third-parties, and the difference between KKR's carrying value before and after the transaction was treated as a reallocation of equity interests. No gain or loss was recognized in the condensed consolidated financial statements.

Both transactions above resulted in an increase to KKR's equity and to noncontrolling interests held by KKR Holdings.

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16. COMMITMENTS AND CONTINGENCIES

Funding Commitments

As of September 30, 2018, KKR had unfunded commitments consisting of $5,055.9 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 business line and (ii) underwriting transactions, debt financing, and syndications in KKR's Capital Markets business line. As of September 30, 2018, these commitments amounted to $28.6 million and $1,041.7 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 business line are shown without reflecting arrangements that may reduce the actual amount of contractual commitments shown occurring after September 30, 2018. KKR's capital markets business has an arrangement with a third party, which reduces its risk when underwriting certain debt transactions, and thus our unfunded commitments are reduced to reflect the amount to be funded by such a third party. In the case of purchases of investments or assets in KKR's Principal Activities business line, 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. As of September 30, 2018, no carried interest was subject to this clawback obligation, assuming that all applicable carry-paying funds were liquidated at their September 30, 2018 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been approximately $2.0 billion. Carried interest is recognized in the condensed consolidated statements 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 condensed 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.

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 and for certain investment vehicles that KKR manages. 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 other investment vehicles. 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.

In December 2017, KKR & Co. L.P. and its Co-Chief Executive Officers were named as defendants in a lawsuit pending in Kentucky state court alleging, among other things, the violation of fiduciary and other duties in connection with certain separately managed accounts that Prisma Capital Partners LP, a former subsidiary of KKR, manages for the Kentucky Retirement Systems. Also named as defendants in the lawsuit are certain current and former trustees and officers of the Kentucky Retirement Systems, Prisma Capital Partners LP, and various other service providers to the Kentucky Retirement Systems and their related persons.

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, unsupportable, 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.

17. 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, 2018, approximately $153.3 million of cash at KKR's registered broker-dealer entities may be restricted as to the payment of cash dividends and advances to KKR.

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18. SUBSEQUENT EVENTS

Common Stock Dividend

A dividend of $0.125 per share of Class A common stock of KKR & Co. Inc. was announced on October 25, 2018, and will be paid on November 20, 2018 to Class A common stockholders of record as of the close of business on November 5, 2018. KKR Holdings will receive its pro rata share of the distribution from the KKR Group Partnerships.

Preferred Stock Dividend

A dividend of $0.421875 per share of Series A Preferred Stock has been declared as announced on October 25, 2018 and set aside for payment on December 17, 2018 to holders of record of Series A Preferred Stock as of the close of business on December 1, 2018.

A dividend of $0.406250 per share of Series B Preferred Stock has been declared as announced on October 25, 2018 and set aside for payment on December 17, 2018 to holders of record of Series B Preferred Stock as of the close of business on December 1, 2018.

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 2018. The acquisition is expected to be completed with a combination of cash and shares of Class A common stock.

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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. Inc., 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, 2017, filed with the SEC on February 23,
2018 (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, and credit, and with strategic partners that manage hedge funds. We aim to generate attractive investment returns for our fund investors by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation with 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 335 private equity investments in portfolio companies with a total transaction value in excess of $580 billion as of September 30, 2018. We have grown our firm by expanding our geographical presence and building businesses in areas such as leveraged credit, alternative credit, capital markets, infrastructure, energy, real estate, growth equity, and core investments. 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. Building on these efforts and leveraging our industry expertise and intellectual capital have allowed us 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.

KKR operates according to a “one-firm” philosophy. This means we seek to work proactively and collaboratively across business lines, departments, and geographies, as appropriate, to achieve what we believe are the best results for our funds, our clients, and the firm. Through our offices throughout the world, we have a pre-eminent global integrated 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 and 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, 2018, 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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Recent Developments

Our Conversion to a Corporation

On July 1, 2018, we completed our conversion from a Delaware limited partnership named KKR & Co. L.P. into a Delaware corporation named KKR & Co. Inc. (the "Conversion"). See “Risk Factors” in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018.

Our Business Lines

Private Markets

Through our Private Markets business line, we manage and sponsor a group of private equity funds that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. In addition to our traditional private equity funds, we sponsor investment funds that invest in growth equity and core equity investments. We also manage and sponsor investment funds that invest capital in real assets, such as infrastructure, energy, and real estate. Our Private Markets business line includes separately managed accounts that invest in multiple strategies, which may include our credit strategies as well as our private equity and real assets strategies. These funds and accounts are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC-registered investment adviser. As of September 30, 2018, Private Markets business line had $103.7 billion of AUM and FPAUM of $66.1 billion, consisting of $44.5 billion in private equity (including growth equity and core investments) and $21.6 billion in real assets (including infrastructure, energy, and real estate) and other related strategies.

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The table below presents information as of September 30, 2018, relating to our current private equity, growth equity, core investment, and real asset funds and other investment vehicles in our Private Markets business line 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, 2018.

	Investment Period [1]		Amount ($ in millions)							
	Start Date	End Date	Commitment [2]	Uncalled Commitments	Percentage Committed by General Partner	Invested	Realized	Remaining Cost [3]	Remaining Fair Value	Gross Accrued Carried Interest
Private Equity and Growth Equity Funds										
Asian Fund III [4]	4/2017	4/2023	$9,000.0	$7,733.5	5.6%	$1,266.5	$—	$1,266.5	$1,525.3	$18.8
Americas Fund XII [4]	1/2017	1/2023	13,500.0	11,607.1	6.0%	1,892.9	—	1,892.9	2,401.3	41.0
Health Care Strategic Growth Fund [4]	12/2016	12/2021	1,331.0	1,233.5	11.3%	97.5	—	97.5	160.4	3.2
Next Generation Technology Growth Fund [4]	3/2016	3/2021	658.9	244.8	22.5%	414.1	—	414.1	668.1	24.0
European Fund IV [4]	12/2014	12/2020	3,511.9	1,325.4	5.6%	2,276.2	461.2	1,893.0	3,185.7	224.9
Asian Fund II [4]	4/2013	4/2017	5,825.0	649.2	1.3%	6,177.0	2,515.1	4,647.3	6,709.6	417.1
North America Fund XI [4]	9/2012	1/2017	8,718.4	851.9	2.9%	9,296.8	7,431.2	6,076.8	11,488.8	1,012.0
China Growth Fund	11/2010	11/2016	1,010.0	—	1.0%	1,010.0	721.8	584.2	585.7	0.3
European Fund III	3/2008	3/2014	5,562.3	225.5	5.1%	5,336.8	8,969.1	1,063.8	2,009.2	190.9
Asian Fund	7/2007	4/2013	3,983.3	—	2.5%	3,945.9	8,409.6	239.2	292.5	11.7
2006 Fund	9/2006	9/2012	17,642.2	337.7	2.1%	17,304.5	29,376.5	3,742.8	6,028.7	432.4
European Fund II	11/2005	10/2008	5,750.8	—	2.1%	5,750.8	8,479.3	—	59.0	4.7
Millennium Fund	12/2002	12/2008	6,000.0	—	2.5%	6,000.0	14,123.1	0.5	14.9	3.0
Private Equity and Growth Equity Funds			82,493.8	24,208.6		60,769.0	80,486.9	21,918.6	35,129.2	2,384.0

Co-Investment Vehicles and Other (4)	Various	Various	7,165.9	2,365.8	Various	5,006.7	3,402.2	3,395.2	5,135.4	482.6
Total Private Equity and Growth Equity Funds			89,659.7	26,574.4		65,775.7	83,889.1	25,313.8	40,264.6	2,866.6
Real Assets										
Energy Income and Growth Fund (4)	9/2013	6/2018	1,974.2	59.3	12.9%	1,958.2	531.9	1,508.0	1,788.4	—
Natural Resources Fund	Various	Various	887.4	2.6	Various	884.8	115.9	201.5	178.4	—
Global Energy Opportunities (4)	Various	Various	979.2	334.4	Various	474.2	83.0	346.1	337.7	2.6
Global Infrastructure Investors (4)	9/2011	10/2014	1,040.2	25.4	4.8%	1,046.2	1,174.6	467.3	628.1	18.9
Global Infrastructure Investors II (4)	10/2014	6/2018	3,041.4	673.1	4.1%	2,591.4	260.8	2,360.9	2,972.4	58.0
Global Infrastructure Investors III (4)	6/2018	6/2024	7,182.0	7,182.0	3.8%	—	—	—	—	—
Real Estate Partners Americas (4)	5/2013	5/2017	1,229.1	352.7	16.3%	1,004.3	1,061.5	402.4	419.2	24.5
Real Estate Partners Americas II (4)	5/2017	12/2020	1,921.2	1,562.3	7.8%	358.9	10.8	355.8	402.5	—
Real Estate Partners Europe (4)	9/2015	6/2020	712.3	425.6	9.7%	297.0	19.1	284.4	345.7	—
Real Estate Credit Opportunity Partners (4)	2/2017	2/2019	1,130.0	458.5	4.4%	671.5	38.8	671.5	686.9	2.8
Co-Investment Vehicles and Other	Various	Various	2,138.4	743.9	Various	1,394.5	649.3	1,391.2	1,675.8	1.3
Real Assets			$22,235.4	$11,819.8		$10,681.0	$3,945.7	$7,989.1	$9,435.1	$108.1
Other										
Core Investment Vehicles (4)	Various	Various	9,500.0	6,560.7	36.8%	2,939.3	—	2,939.3	3,462.5	14.2

Unallocated Commitments (5)	3,149.8	3,149.8	Various	—	—	—	—	—
Private Markets Total	$124,544.9	$48,104.7		$79,396.0	$87,834.8	$36,242.2	$53,162.2	$2,988.9

(1) 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 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, and (ii) the date on which the last investment was made.

(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, 2018, 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) "Unallocated Commitments" represent unallocated commitments from our strategic investor partnerships.

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The table below presents information as of September 30, 2018, 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. This data does not reflect additional capital raised since September 30, 2018, or acquisitions or disposals of investments, changes in investment values or distributions occurring after that date. However, the information presented below is not intended to be representative of any past or future performance for any particular period other than the period presented below. Past performance is no guarantee of future results.

	Amount		Fair Value of Investments					
Private Markets Investment Funds	Commitment	Invested	Realized [4]	Unrealized	Total Value	Gross IRR [5]	Net IRR [5]	Gross Multiple of Invested Capital [5]
($ in millions)								
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	14,123.1	14.9	14,138.0	22.0%	16.1%	2.4
European Fund II (2005) [2]	5,750.8	5,750.8	8,479.3	59.0	8,538.3	6.1%	4.5%	1.5
2006 Fund (2006)	17,642.2	17,304.5	29,376.5	6,028.7	35,405.2	11.9%	9.3%	2.0
Asian Fund (2007)	3,983.3	3,945.9	8,409.6	292.5	8,702.1	19.0%	13.8%	2.2
European Fund III (2008) [2]	5,562.3	5,336.8	8,969.1	2,009.2	10,978.3	17.2%	12.0%	2.1
E2 Investors (Annex Fund) (2009) [2]	195.8	195.8	199.6	—	199.6	0.6%	0.5%	1.0
China Growth Fund (2010)	1,010.0	1,010.0	721.8	585.7	1,307.5	8.5%	3.6%	1.3
Natural Resources Fund (2010)	887.4	884.8	115.9	178.4	294.3	(23.5)%	(25.6)%	0.3
Global Infrastructure Investors (2011) [2]	1,040.2	1,046.2	1,174.6	628.1	1,802.7	15.0%	13.0%	1.7
North America Fund XI (2012)	8,718.4	9,296.8	7,431.2	11,488.8	18,920.0	27.1%	21.6%	2.0
Asian Fund II (2013)	5,825.0	6,177.0	2,515.1	6,709.6	9,224.7	19.1%	13.9%	1.5
Real Estate Partners Americas (2013)	1,229.1	1,004.3	1,061.5	419.2	1,480.7	19.6%	14.5%	1.5
Energy Income and Growth Fund (2013)	1,974.2	1,958.2	531.9	1,788.4	2,320.3	8.4%	5.6%	1.2
Global Infrastructure Investors II (2014) [2]	3,041.4	2,591.4	260.8	2,972.4	3,233.2	15.4%	12.5%	1.2
European Fund IV (2015) [2]	3,511.9	2,276.2	461.2	3,185.7	3,646.9	28.0%	21.0%	1.6
Real Estate Partners Europe (2015) [2]	712.3	297.0	19.1	345.7	364.8	18.4%	11.5%	1.2
	658.9	414.1	—	668.1	668.1	55.3%	43.2%	1.6

Next Generation Technology Growth Fund (2016)								
Health Care Strategic Growth Fund (2016) (3)	1,331.0	97.5	—	160.4	160.4	—	—	—
Americas Fund XII (2017) (3)	13,500.0	1,892.9	—	2,401.3	2,401.3	—	—	—
Real Estate Credit Opportunity Partners (2017) (3)	1,130.0	671.5	38.8	686.9	725.7	—	—	—
Asian Fund III (2017) (3)	9,000.0	1,266.5	—	1,525.3	1,525.3	—	—	—
Real Estate Partners Americas II (2017) (3)	1,921.2	358.9	10.8	402.5	413.3	—	—	—
Core Investment Vehicles (2017) (3)	9,500.0	2,939.3	—	3,462.5	3,462.5	—	—	—
Global Infrastructure Investors III (2018) (2)(3)	7,182.0	—	—	—	—	—	—	—
Subtotal - Included Funds	114,392.8	75,801.8	92,657.6	46,013.3	138,670.9	15.9 %	11.9 %	1.9
All Funds	$ 130,867.3	$ 92,276.3	$ 142,926.9	$ 46,013.3	$ 188,940.2	25.6 %	18.8 %	2.0

(1) These funds were not contributed to KKR as part of 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").

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(2) The following table presents information regarding investment funds with euro-denominated commitments. 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, 2018, in the case of unfunded commitments.

Private Markets Investment Funds	Commitment (€ in millions)
European Fund	€196.5
European Fund II	€2,597.5
European Fund III	€2,882.8
E2 Investors (Annex Fund)	€55.5
European Fund IV	€1,626.1
Global Infrastructure Investors	€30.0
Global Infrastructure Investors II	€243.8
Real Estate Partners Europe	€276.6
Global Infrastructure Investors III	€987.0

(3) The gross IRR, net IRR and gross multiple of invested capital are calculated for our investment funds that made their first investment at least 24 months prior to September 30, 2018. None of the Health Care Strategic Growth Fund, Americas Fund XII, Real Estate Credit Opportunity Partners, Asian Fund III, Real Estate Partners Americas II, our Core Investment Vehicles, or Global Infrastructure Investors III has invested for at least 24 months as of September 30, 2018. We therefore have not calculated gross IRRs, net IRRs and gross multiples of invested capital with respect to those funds.

(4) An investment is considered 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, 2018 or have otherwise not had any realizations.

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

The gross 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 realized and unrealized carried interest or the payment of any applicable management fees or organizational expenses.

KKR's Private Markets funds may utilize third-party financing facilities to provide liquidity to such funds. The above net and gross 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, which tends to increase IRRs when fair value grows over time and decrease IRRs when fair value decreases over time. KKR's 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

Through our Public Markets business line, we operate our combined credit and hedge funds platforms. Our credit platform invests capital in (i) leveraged credit strategies, including leveraged loans, high-yield bonds, opportunistic credit, and revolving credit strategies and (ii) alternative credit strategies, including special situations and private credit strategies, such as direct lending and private opportunistic credit (or mezzanine) investment strategies. The funds, CLOs, separately managed accounts, investment companies registered under the Investment Company Act of 1940 (the "Investment Company Act"), including BDCs, and alternative investment funds ("AIFs") in our leveraged credit and alternative 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 (EMEA) LLP, regulated by the United Kingdom Financial Conduct Authority (the "FCA"). Our Public Markets business line also includes our hedge funds platform, which consists of strategic partnerships with third-party hedge fund managers in which KKR owns a minority stake (which we refer to as "hedge fund partnerships"). Our hedge fund partnerships offer a variety of investment strategies, including hedge fund-of-funds, equity hedge funds, credit hedge funds, and funds focused on investing in natural catastrophe and weather risks.
We intend to continue to grow the Public Markets business line by leveraging our global investment platform, experienced investment professionals, and the ability to adapt our investment strategies to different market conditions to capitalize on investment opportunities that may arise at various levels of the capital structure and across market cycles.

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As of September 30, 2018, our Public Markets business line had $91.0 billion of AUM, comprised of $32.2 billion of assets managed in our leveraged credit strategies (which include $2.2 billion of assets managed in our opportunistic credit strategy and $1.8 billion of assets managed in our revolving credit strategy), $7.3 billion of assets managed in our special situations strategy, $22.5 billion of assets managed in our private credit strategies, $28.2 billion of assets managed through our hedge fund platform, and $0.8 billion of assets managed in other strategies. Our private credit strategies include $16.7 billion of assets managed in our direct lending strategy and $5.8 billion of assets managed in our private opportunistic credit strategy. Assets managed through our hedge fund platform represent KKR's pro rata portion of AUM of our hedge fund partnerships.
The previously announced strategic BDC partnership (the "FS Investments Transaction") with Franklin Square Holdings, L.P. ("FS Investments") closed on April 9, 2018. Our BDC platform has approximately $16.8 billion in combined assets under management. We report all of the assets under management of the BDCs in our BDC platform advised by FS/KKR Advisor, LLC.

Credit

Performance
We generally review our performance in our credit platform by investment strategy.

The following table presents information regarding the principal leveraged credit strategies managed by KKR. The returns presented below are from inception of the strategy to September 30, 2018. However, the information presented below is not intended to be representative of any past or future performance for any particular period other than the period presented below. Past performance is no guarantee of any future result.

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

Leveraged Credit Strategy	Inception Date	Gross Returns	Net Returns	Benchmark [1]	Benchmark Gross Returns
Bank Loans Plus High Yield	Jul 2008	7.98 %	7.35 %	65% S&P/LSTA Loan Index, 35% BoAML HY Master II Index [2]	6.27 %
Opportunistic Credit [3]	May 2008	12.78 %	10.78 %	BoAML HY Master II Index [3]	6.53 %
Bank Loans	Apr 2011	5.54 %	4.93 %	S&P/LSTA Loan Index [4]	4.37 %
High-Yield	Apr 2011	6.77 %	6.19 %	BoAML HY Master II Index [5]	6.27 %
Bank Loans Conservative	Apr 2011	4.79 %	4.19 %	S&P/LSTA BB-B Loan Index [6]	4.34 %
European Leveraged Loans [7]	Sep 2009	5.23 %	4.70 %	CS Inst West European Leveraged Loan Index [8]	4.63 %
High-Yield Conservative	Apr 2011	6.04 %	5.47 %	BoAML HY BB-B Constrained [9]	6.09 %
European Credit Opportunities [7]	Sept 2007	5.70 %	4.79 %	S&P European Leveraged Loans (All Loans) [10]	4.36 %
Revolving Credit [11]	May 2015	N/A	N/A	N/A	N/A

(1) 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 West European Leveraged Loan Index"), and S&P 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

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 West 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 our leveraged credit 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.

(2) Performance is based on a blended composite of Bank Loans Plus High Yield strategy accounts. The benchmark 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.

(3) 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 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.

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(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 Conservative strategy is based on the S&P/LSTA BB-B Loan Index.

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

(8) Performance is based on a composite of portfolios that primarily invest in higher quality leveraged loans. The benchmark used for purposes of comparison for the European Leveraged Loans strategy is based on the CS Inst West European Leveraged Loan Index.

(9) Performance is based on a composite of portfolios that primarily invest in high-yield securities rated B or higher. The benchmark used for purposes of comparison for the High-Yield Conservative strategy is based on the BoAML HY BB-B Constrained Index.

(10) Performance is based on a composite of portfolios that primarily invest in European institutional leveraged loans. The benchmark used for purposes of comparison for the European Credit Opportunities strategy is based on the S&P European Leveraged Loans (All Loans) Index.

(11) This strategy has not called any capital as of September 30, 2018. As a result, the gross and net return performance measures are not meaningful and are not included above.

The following table presents information regarding our Public Markets alternative credit funds where investors are subject to capital commitments from inception to September 30, 2018. Some of these funds have been investing for less than 24 months, and thus their performance is less meaningful and not included below. In addition, the information presented below is not intended to be representative of any past or future performance for any particular period other than the period presented below, and past performance is no guarantee of any future result.

Alternative Credit Strategies: Fund Performance

		Amount		Fair Value of Investments						
Public Markets Investment Funds	Inception Date	Commitment	Invested (1)	Realized (1)	Unrealized	Total Value	Gross IRR (2)	Net IRR (2)	Multiple of Invested Capital (3)	Gross Accrued Carried Interest
($ in Millions)										
Special Situations Fund	Dec 2012	$2,274.3	$2,244.7	$1,140.7	$1,657.4	$2,798.1	6.5 %	4.5 %	1.2	$—
Special Situations Fund II	Dec 2014	3,387.6	2,052.1	39.7	2,299.7	2,339.4	8.3 %	5.7 %	1.1	—
Mezzanine Partners	Mar 2010	1,022.8	913.9	1,060.1	314.3	1,374.4	13.5%	8.8 %	1.5	69.1
Private Credit Opportunities Partners II	Dec 2015	2,245.1	637.3	13.1	639.2	652.3	5.0 %	2.1 %	1.0	—
Lending Partners	Dec 2011	460.2	405.3	431.4	77.8	509.2	6.7 %	5.2 %	1.3	—
Lending Partners II	Jun 2014	1,335.9	1,179.1	723.7	792.8	1,516.5	12.1%	9.9 %	1.3	43.5
Lending Partners III	Apr 2017	963.8	195.0	—	236.2	236.2	N/A	N/A	N/A	5.8
Lending Partners Europe	Mar 2015	847.6	538.1	73.9	529.8	603.7	11.6%	7.8 %	1.1	1.2
	Various	8,261.0	4,207.4	2,534.9	3,151.2	5,686.1	N/A	N/A	N/A	164.4

Other Alternative Credit Vehicles										
Unallocated Commitments (4)	Various	450.0	—	—	—	—	N/A	N/A	N/A	—
All Funds		$21,248.3	$12,372.9	$6,017.5	$9,698.4	$15,715.9				$284.0

(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 an 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.

(4) "Unallocated Commitments" represent unallocated commitments from our strategic investor partnerships.

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Public Markets AUM and Vehicle Structures

The table below presents information as of September 30, 2018, based on the investment funds, vehicles, or accounts offered by our Public Markets business line. 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 are 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	$16,512	$15,119	0.10% - 1.10%	Various (1)	Various (1)	Subject to redemptions
CLOs	12,113	12,113	0.40% - 0.50%	Various (1)	Various (1)	10-14 Years (2)
Total Leveraged Credit	28,625	27,232				
Alternative Credit: (3)						
Special Situations	7,575	4,473	0.90% - 1.75% (4)	10.00 - 20.00%	7.00 - 12.00%	8-15 Years (2)
Private Credit	9,797	4,085	0.50% - 1.50%	10.00 - 20.00%	5.00 - 8.00%	8-15 Years (2)
Total Alternative Credit	17,372	8,558				
Hedge Funds (5)	28,168	20,642	0.50% - 2.00%	Various (1)	Various (1)	Subject to redemptions
BDCs (6)	16,793	16,793	0.60%	8.00%	7.00%	Indefinite
Total	$90,958	$73,225				

(1) Certain funds and CLOs are subject to a performance fee in which the manager or general partner of the funds share up to 20% of the net profits earned by investors in excess of performance hurdles (generally tied to a benchmark or index) and are 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 2013 and 2018 and for separately managed accounts and funds investing in alternative credit strategies from 2009 through 2018.

(3) Our alternative credit funds generally have investment periods of three to five 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 hedge fund partnerships, which consist of minority stakes in hedge fund managers.

(6) Consists of our BDC platform advised by FS/KKR Advisor, LLC. We report all of the assets under management of the BDCs in AUM and FPAUM.

Capital Markets

Our Capital Markets business line is comprised of our global capital markets business, which is integrated with KKR's other business lines, and serves 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. Our capital markets business underwrites credit facilities and arranges loan syndications and participations. When we are sole arrangers of a credit facility, we may advance amounts to the borrower on behalf of other lenders, subject to repayment. When we underwrite an offering of securities on a firm commitment basis, we commit to buy and sell an issue of securities and generate revenue by purchasing the securities 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 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. Our capital markets business also plays an important role in syndicating private equity co-investment opportunities to both fund investors and other third parties, which may entitle the firm to receive management fees and/or a carried interest.

Our flagship capital markets subsidiary is KKR Capital Markets LLC, an SEC-registered broker-dealer and a member of the Financial Industry Regulation Authority ("FINRA"), which is 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 business line, we manage the firm's own assets on our balance sheet and deploy capital to support and grow our business lines. Typically, the funds in our Private Markets and Public Markets business lines 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 hedge fund partnership may be reported in our other business lines.

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

We also make opportunistic investments through our Principal Activities business line, which include co-investments alongside our Private Markets and Public Markets funds as well as 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, is in compliance with applicable laws, and is consistent with our one-firm approach.

The chart below presents the holdings of our Principal Activities business line by asset class as of September 30, 2018.

Holdings by Asset Class [1]

(1) This presentation includes our capital commitments to our funds. Assets and revenues of other asset managers with which KKR has formed hedge fund partnerships where KKR does not hold more than 50% ownership interest are not included in Principal Activities but are reported in the financial results of our other business lines. Private Equity includes KKR private equity funds, co-investments alongside such KKR-sponsored private equity funds, certain core equity 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 other leveraged credit and specialty finance strategies.

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Business Environment

Economic and Market Conditions

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, our ability to raise capital from investors, and our ability to make new investments. Financial and economic conditions in the United States, the European Union, Japan, China, and other major economies are significant contributors to the global economy.

As of September 30, 2018, U.S. economic growth remained strong, despite showing signs of slowing down amid the imposition of tariffs on U.S.-China trades and widening U.S. trade deficit in the third quarter. Following the previous rate increases in March and June of 2018, the U.S. Federal Reserve again raised its benchmark interest rate by 25 basis points in September 2018, and forecasted another raise in 2018 and three more in 2019. In the United States, real GDP growth was 3.5%, on a seasonally adjusted annualized basis, for the quarter ended September 30, 2018, down from 4.2% for the quarter ended June 30, 2018; the U.S. unemployment rate was 3.7% as of September 30, 2018, down from 4.0% as of June 30, 2018; U.S. core consumer price index inflation was 2.2% on a year-over-year basis as of September 30, 2018, down from 2.3% on a year-over-year basis as of June 30, 2018; and the effective federal funds rate set by the U.S. Federal Reserve was 2.2% as of September 30, 2018, up from 1.9% as of June 30, 2018.

As of September 30, 2018, the European Union continued its slow and steady pace of economic growth, with concerns of instability rising in the background due to ongoing negotiations over Britain's exit from the European Union and disagreement about Italy's budget plan. In the Euro Area, real GDP growth was 0.2%, on a seasonally adjusted quarter-over-quarter basis, for the quarter ended September 30, 2018, down from 0.4% for the quarter ended June 30, 2018; the Euro Area unemployment rate is estimated to be 8.1% as of September 30, 2018, slightly down from 8.2% as of June 30, 2018; Euro Area core inflation was 0.9% on a year-over-year basis as of September 30, 2018, unchanged from June 30, 2018; and the short-term benchmark interest rate set by the European Central Bank was 0% as of September 30, 2018, flat from June 30, 2018.

As of September 30, 2018, the Bank of Japan continued its loose monetary policy and projected a continued modest expansion of Japan's economy. Chinese economic growth slowed during the third quarter of 2018, which could reflect growing tensions in its trade conflicts with the United States. In Japan, the short-term benchmark interest rate set by the Bank of Japan was 0.1% as of September 30, 2018, unchanged from June 30, 2018; and in China, reported real GDP was 1.6%, on a seasonally adjusted quarter-over-quarter basis, for the quarter ended September 30, 2018, compared to 1.8% in the quarter ended June 30, 2018.

These and other key issues could have repercussions across regional and global financial markets, which could adversely affect the valuations of our investments. Other key issues include (i) political uncertainty caused by, among other things, populist political parties and economic nationalist sentiments, (ii) regulatory changes regarding, for example, taxation, international trade, cross-border investments, immigration, and austerity programs, (iii) increased volatility as the U.S. Federal Reserve potentially raises interest rates more frequently and/or in larger increments than in previous increases, and (iv) technological advancements and innovations that may disrupt marketplaces and businesses. For a further discussion of how market conditions may affect our businesses, see "Risk Factors—Risks Related to Our Business—Difficult market and economic 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.

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. Low interest rates related to monetary stimulus and economic stagnation may negatively impact expected returns on all types of investments. Higher interest rates in conjunction with slower growth or weaker currencies in some emerging market economies have caused, and may further cause, the default risk of these countries to increase, and this could impact the operations or value of our investments that operate in these regions. Areas such as the Eurozone and Japan, which have ongoing central bank quantitative easing campaigns and comparatively low interest rates relative to the United States, could potentially experience further currency volatility and weakness relative to the U.S. dollar.

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, 2018, global equity markets were positive, with the S&P 500 Index up 7.7% and the MSCI World Index up 5.1% on a total return basis including dividends. Equity market volatility as evidenced by the Chicago Board Options Exchange Market Volatility Index (the "VIX"), a measure of volatility, ended at 12.1 as of September 30, 2018, decreasing from 16.1 as of June 30, 2018. Since September 30, 2018, however, the U.S. equity market has experienced significant volatility, with the VIX rising to 24.22 on October 25, 2018 and the S&P 500 Index falling by 7.2% between September 30, 2018 and October 25, 2018. For a 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, which may have a significant impact on the valuation of our investments and, therefore, on the investment income we realize and our results of operations and financial condition" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Fair Value Measurements—Level III Valuation Methodologies" in our Annual 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 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, 2018, U.S. investment grade corporate bond spreads (BofA Merrill Lynch US Corporate Index) narrowed by 17 basis points and U.S. high-yield corporate bond spreads (BofAML HY Master II Index) narrowed by 43 basis points. The non-investment grade credit indices were up during the quarter ended September 30, 2018, with the S&P/LSTA Leveraged Loan Index up 1.8% and the BofAML HY Master II Index up 2.4%. In addition, during the quarter ended September 30, 2018, 10-year government bond yields rose 20 basis points in the United States, rose 17 basis points in Germany, rose 30 basis points in the United Kingdom, rose 14 basis points in China, and rose 9 basis points in Japan. For a further discussion of how market conditions may affect our businesses, see "Risk Factors—Risks Related to Our Business—Difficult market and economic 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 "Risk Factors—Risks Related to the Assets We Manage—Our investments are impacted by various economic conditions that are difficult to quantify or predict, which may have a significant impact on the valuation of our investments and, therefore, on the investment income we realize and our results of operations and financial condition" in our Annual Report.

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 to refinance existing debt and may increase the cost of such financing or refinancing if it is obtained, which could lead to lower-yielding investments and potentially decrease our net income," "Risk Factors—Risks Related to the Assets We Manage—Our investments are impacted by various economic conditions that are difficult to quantify or predict, which may have a significant impact on the valuation of our investments and, therefore, on the investment income we realize and our results of operations and financial condition" and "Risk Factors—Risks Related to the Assets We Manage—Our funds and our firm through our Principal Activities segment may make a limited number of investments, or investments that are concentrated in certain issuers, geographic regions or asset types, which could negatively affect our performance or the performance of our funds to the extent those concentrated assets perform poorly" in our Annual Report. For a further discussion of our valuation methods, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Fair Value Measurements—Level III Valuation Methodologies" in our Annual 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 that 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 United States, while a depreciating U.S. dollar would be expected to have the opposite effect. For our investments denominated in currencies other than the U.S. dollar, the depreciation in such currencies will generally contribute to the decrease in the valuation of such investments, to the extent unhedged, and adversely affect the U.S. dollar equivalent revenues of portfolio companies with substantial revenues denominated in such currencies, while the appreciation in such currencies would be expected to have the opposite effect. For the quarter ended September 30, 2018, the euro fell 0.7%, the British pound fell 1.3%, the Japanese yen fell 2.6%, and the Chinese renminbi fell 3.6%, respectively, relative to the U.S. dollar. For additional information regarding our foreign exchange rate risk, see "Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosure About Market Risk—Exchange Rate Risk" in our Annual Report.

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, 2018, the long-term price of WTI crude oil increased approximately 9%, while the long-term price of natural gas decreased approximately 2%. The long-term price of WTI crude oil increased from approximately $58 per barrel to $63 per barrel, and the long-term price of natural gas decreased from approximately $2.64 per mcf to $2.59 per mcf as of June 30, 2018 and September 30, 2018, 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, which had a fair value of $0.7 billion as of September 30, 2018 on our balance sheet, 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 "Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Fair Value Measurements—Level III Valuation Methodologies—Real Asset Investments" and "Risk Factors—Risks Related to the Assets We Manage—Our funds and our firm through our Principal Activities segment may make a limited number of investments, or investments that are concentrated in certain issuers, geographic regions or asset types, which could negatively affect our performance or the performance of our funds to the extent those concentrated assets perform poorly" in our Annual Report.

Business Conditions

Our segment revenues consist of fees, performance income and investment income. Our ability to grow our revenues depends in part on our ability to attract new capital and investors, our successful deployment of capital including from our balance sheet and our ability to realize investments at a profit.

Our ability to attract new capital and investors. Our ability to attract new capital and investors in our funds is driven, in part, by the extent to which they continue to see the alternative asset management industry generally, and our investment products specifically, as an attractive vehicle for capital appreciation or income. Since 2010, we have expanded into strategies such as energy, infrastructure, real estate, growth equity, core, credit and, through hedge fund partnerships, hedge funds. In several of these strategies, our first time funds have begun raising successor funds, and we expect the cost of raising such successor funds to be lower. We have also reached out to new fund investors, including retail and high net worth investors. However, fundraising continues to be competitive. While our Americas Fund XII, Asian Fund III and our Real Estate Partners Americas II fund exceeded the size of their respective predecessor funds, there is no assurance that fundraises for our other flagship private equity funds or for our newer strategies and their successor funds will experience similar success. If we are unable to successfully raise comparably sized or larger funds, our AUM, FPAUM and associated fees attributable to new capital raised in future periods may be lower than in prior years. New capital organically raised in AUM for the quarters ended September 30, 2018 and 2017 were $6.1 billion and $7.7 billion, respectively. See "Risk Factors—Risks Related to Our Business—Our inability to raise additional or successor funds (or raise successor funds of a comparable size as our predecessor funds) could have a material adverse impact on our business" in our Annual Report.

Our ability to successfully deploy capital. Our ability to maintain and grow our revenue base is dependent upon our ability to successfully deploy the capital available to us and participate in capital markets transactions. Greater competition, high valuations, increased overall cost of credit and other general market conditions may impact our ability to identify and execute attractive investments. Additionally, because we seek to make investments that have an ability to achieve our targeted returns while taking on a reasonable level of risk, we may experience periods of reduced investment activity. We have a long-term investment horizon and the capital deployed in any one quarter may vary significantly from the capital deployed in any other quarter or the quarterly average of capital deployed in any given year. Reduced levels of transaction activity also tends to result in reduced potential future investment gains, lower transaction fees and lower fees for our capital markets business line, which may earn fees in the syndication of equity or debt. Capital invested for the quarters ended September 30, 2018 and 2017 were

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$5.5 billion and $4.6 billion, respectively, and syndicated capital for the quarters ended September 30, 2018 and 2017 were $1.6 billion and $0.5 billion, respectively.
Our ability to realize investments. Challenging market and economic conditions may adversely affect our ability to exit and realize value from our investments and result in lower-than-expected returns. Although the equity markets are not the only means by which we exit investments, the strength and liquidity of the U.S. and relevant global equity markets generally, and the initial public offering market specifically, affect the valuation of, and our ability to successfully exit, our equity positions in our private equity portfolio companies in a timely manner. We may also realize investments through strategic sales. When financing is not available or becomes too costly, it may be more difficult to find a buyer that can successfully raise sufficient capital to purchase our investments. For the quarters ended September 30, 2018 and 2017, through exit activity in our investments, we realized carried interest of $0.4 billion and $0.4 billion, respectively.

Basis of Accounting

We consolidate the financial results of the KKR Group Partnerships and their consolidated entities, 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 CMBS. We refer to CLOs and CMBS as collateralized financing entities ("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 Note 2 "Summary of Significant Accounting Policies" to the condensed consolidated financial statements included elsewhere in this report.

Key Financial Measures Under GAAP

Revenues

Fees and Other

Fees and other consist primarily of (i) management and incentive fees from providing investment management services to unconsolidated funds, CLOs, other vehicles, and separately managed accounts; (ii) transaction fees earned in connection with successful investment transactions and from capital markets activities; (iii) monitoring fees from providing services to portfolio companies; (iv) expense reimbursements from certain investment funds and portfolio companies; (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. 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.

Capital Allocation-Based Income

Capital allocation-based income is earned from those arrangements whereby KKR serves as general partner and includes income from KKR's capital interest as well as “carried interest” which entitles KKR to a disproportionate allocation of investment income from investment funds' limited partners.

For a further discussion of our revenue policies, see Note 2 "Summary of Significant Accounting Policies" to the condensed consolidated financial statements included elsewhere in this report.

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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. 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 expenses.

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, in the past cash bonuses that are paid to certain employees have been 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 dividends, 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 2015. In addition, substantially all remaining units in KKR Holdings have been allocated and, while subject to a 5 year vesting period, will become fully vested by 2021, thus decreasing the amount of distributions received by KKR Holdings that are available for annual cash bonus compensation. We, therefore, expect to pay all or substantially all of the cash bonus payments from KKR's cash from operations, the carry pool, and other performance-based income compensation as described below; although, from time to time, KKR Holdings may contribute to the cash bonus payments in the future. 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 regarding the adequacy of such distributions to fund future discretionary cash bonuses.

KKR uses several 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, beginning with the quarter ended March 31, 2018, our carry pool is supplemented by allocating 43% of the incentive fees that do not constitute carried interest that are earned from such funds to performance income compensation. Prior to the quarter ended March 31, 2018, our carry pool was supplemented by 40% of incentive fees that do not constitute carried interest. 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, 2016, 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 ended September 30, 2017, for then-current and future carry generating funds with a preferred return and no or minimal accrued carried interest as of June 30, 2017, KKR allocates 43% of the carried interest to the carry pool instead of 40% of carried interest. For impacted funds, 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."

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 as well as income earned from equity method investments. 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."

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, 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. Our management companies bear no obligations with respect to financing arrangements at our consolidated funds. We also may provide other kinds of guarantees. See "—Liquidity."

Income Taxes

On July 1, 2018, we converted from a Delaware limited partnership to a Delaware corporation. Prior to the Conversion, KKR’s investment income and carried interest generally were not subject to U.S. corporate income taxes. Subsequent to the Conversion, all income earned by KKR is subject to U.S. corporate income taxes, resulting in an overall higher income tax expense (or benefit) in periods subsequent to the Conversion. See “Risk Factors” in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018.

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

The Conversion resulted in KKR obtaining a partial step-up in the tax basis of certain assets that will be recovered as those assets are sold or the basis is amortized. On the date of the Conversion, we recorded an estimated net tax benefit and estimated net deferred tax asset of $257.1 million relating to this partial step-up in tax basis. Note 11 "Income Taxes" to the condensed consolidated financial statements included elsewhere in this report and "Risk Factors" in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018.

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.

The 2017 Tax Act, which was enacted on December 22, 2017, permanently reduces the U.S. federal corporate income tax rate from a maximum of 35% to a 21% rate, effective January 1, 2018. KKR has recognized the provisional tax impacts related to deemed repatriated earnings, the revaluation of deferred tax assets and deferred tax liabilities, and the related impact on the tax receivable agreement and included these amounts in its consolidated financial statements for the year ended December 31, 2017. KKR filed its 2017 U.S. corporate income tax return in October 2018 and the actual tax impacts described above did not differ materially from the provisional amounts recorded in 2017. See Note 11 "Income Taxes" to the audited financial statements included in our Annual Report for further information on the financial statement impact of the 2017 Tax Act.

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 Note 2 "Summary of Significant Accounting Policies" to the condensed consolidated financial statements included elsewhere in this report.

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Key Segment and Other Operating and Performance Measures

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

We disclose certain financial measures in this report that are calculated and presented using methodologies other than in accordance with GAAP. We believe that providing these performance measures on a supplemental basis to our GAAP results is helpful to stockholders in assessing the overall performance of KKR's businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with GAAP, if available. We caution readers that these non-GAAP financial measures may differ from the calculations of other investment managers, and as a result, may not be comparable to similar measures presented by other investment managers. Reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP, where applicable, are included within Note 14 "Segment Reporting" to the condensed consolidated financial statements included elsewhere in this report and under "—Segment Balance Sheet."

Adjusted Shares

Adjusted shares are used as a measure of the total common equity ownership of KKR that is held by KKR & Co. Inc. (including equity awards issued under the Amended and Restated KKR & Co. Inc. 2010 Equity Incentive Plan (the "Equity Incentive Plan"), but excluding preferred stock), KKR Holdings and other holders of securities exchangeable into Class A common stock of KKR & Co. Inc. and represent the fully diluted share count of Class A common stock using the if-converted method. We believe this measure is useful to stockholders 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 Class A common stock of KKR & Co. Inc. The Series A and Series B Preferred Stock are not exchangeable for Class A common stock of KKR & Co. Inc.

Adjusted Shares Eligible for Distribution

Adjusted shares eligible for distribution represents the portion of total adjusted shares that are eligible to receive a dividend. We believe this measure is useful to stockholders as it provides insight into the calculation of amounts available for distribution as dividends on a per share basis. Weighted average adjusted shares eligible for distribution is used in the calculation of after-tax distributable earnings per share.

After-tax Distributable Earnings

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

Assets Under Management ("AUM")

Assets under management 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 BDC partnership and hedge fund managers in which KKR holds a minority ownership interest. We believe this measure is useful to stockholders as it provides additional insight into the capital raising activities of KKR and its hedge fund managers and the overall activity in their investment funds and other managed capital. KKR calculates the amount of AUM as

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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 hedge fund managers in which KKR holds a minority ownership interest; (vi) all of AUM of the strategic BDC partnership with FS Investments; and (vii) the fair value of other assets managed by KKR. The pro rata portion of the AUM of hedge fund managers 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 segment 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 stockholders 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 Stock. As of September 30, 2018, KKR's segment balance sheet reflects KKR's tax assets and liabilities as prepared under GAAP.

Capital Invested

Capital invested is the aggregate amount of capital invested by (i) KKR’s investment funds, (ii) KKR's Principal Activities business line as a co-investment, if any, alongside KKR’s investment funds, and (iii) KKR's Principal Activities business line in connection with a syndication transaction conducted by KKR's Capital Markets business line, 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 stockholders as it provides a measure of capital deployment across KKR’s business lines. Capital invested includes investments made using investment financing arrangements like credit facilities, as applicable. Capital invested excludes (i) investments in certain leveraged credit strategies, (ii) capital invested by KKR’s Principal Activities business line that is not a co-investment alongside KKR’s investment funds, and (iii) capital invested by KKR’s Principal Activities business line that is not invested in connection with a syndication transaction by KKR’s Capital Markets business line. Capital syndicated by KKR's Capital Markets business line to third parties other than KKR’s investment funds or Principal Activities business line is not included in capital invested. See also "—Syndicated Capital."

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 stockholders 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 hedge fund and BDC partnership 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 (e.g., 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 supplemental measure of earnings of KKR on a segment basis before performance income and investment income. KKR believes this measure may be useful to stockholders as it provides additional insight into the profitability of KKR's fee generating management companies and capital markets businesses. Starting with the second quarter of 2018, fee related earnings is calculated as KKR's total Fees and Other, Net, multiplied by KKR's segment operating margin. For purposes of the fee related earnings calculation, segment operating margin is calculated as Segment Operating Earnings, before equity-based compensation, divided by total segment revenues. Historically, fee related earnings was calculated as operating earnings of KKR on a segment basis before performance income, related performance income compensation and investment income. KKR revised the definition of fee related earnings starting in the second quarter of 2018 to provide supplemental information about fees generated from KKR's management companies and capital markets business because KKR believes it provides increased transparency on KKR's underlying financial results to the stockholders. Fee related earnings for the comparable prior periods have been calculated using this new definition.

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Income Taxes Paid

Income taxes paid represents the implied current income tax provision that has been calculated assuming that all current taxable income is allocated to KKR & Co. Inc., which would occur following an exchange of all KKR Holdings units for Class A common stock of KKR & Co. Inc. The assumptions and methodology used to calculate the implied current income tax provision are consistent with those used in calculating the current tax provision for KKR & Co. Inc. under GAAP.

Outstanding Adjusted Shares

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

Segment Operating Earnings

Segment operating earnings represents segment earnings before interest expense, preferred dividends, income attributable to noncontrolling interests and income taxes paid. We believe segment operating earnings is useful to stockholders as it provides a supplemental measure of our operating performance without taking into account items that we do not believe relate directly to operations.

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, (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 stockholders as it provides additional insight into levels of syndication activity in KKR's Capital Markets business line and across KKR's 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 stockholders 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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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, 2018 and 2017. 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 reportable segment in these periods, see "—Segment Analysis."

Three months ended September 30, 2018 compared to three months ended September 30, 2017

	Three Months Ended		
	September 30, 2018	September 30, 2017	Change
	($ in thousands)		
Revenues			
Fees and Other	$491,503	$355,418	$136,085
Capital Allocation-Based Income	638,163	394,234	243,929
Total Revenues	1,129,666	749,652	380,014
Expenses			
Compensation and Benefits	560,434	368,513	191,921
Occupancy and Related Charges	15,250	15,267	(17)
General, Administrative and Other	164,406	146,467	17,939
Total Expenses	740,090	530,247	209,843
Investment Income (Loss)			
Net Gains (Losses) from Investment Activities	666,731	52,004	614,727
Dividend Income	38,245	20,774	17,471
Interest Income	339,393	317,134	22,259
Interest Expense	(211,081)	(211,959)	878
Total Investment Income (Loss)	833,288	177,953	655,335
Income (Loss) Before Taxes	1,222,864	397,358	825,506
Income Tax Expense (Benefit)	(129,405)	18,420	(147,825)
Net Income (Loss)	1,352,269	378,938	973,331
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	12,236	20,876	(8,640)
Net Income (Loss) Attributable to Noncontrolling Interests	691,494	196,158	495,336
Net Income (Loss) Attributable to KKR & Co. Inc.	648,539	161,904	486,635
Series A Preferred Stock Dividends	5,822	5,822	—
Series B Preferred Stock Dividends	2,519	2,519	—
Net Income (Loss) Attributable to KKR & Co. Inc. Class A Common Stockholders	$640,198	$153,563	$486,635

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Revenues

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

	Three Months Ended		
	September 30, 2018	September 30, 2017	Change
	($ in thousands)		
Management Fees	$188,866	$178,942	$9,924
Fee Credits	(73,904)	(70,641)	(3,263)
Transaction Fees	290,404	181,280	109,124
Monitoring Fees	20,176	14,478	5,698
Incentive Fees	—	2,519	(2,519)
Expense Reimbursements	38,212	27,370	10,842
Oil and Gas Revenue	12,635	12,441	194
Consulting Fees	15,114	9,029	6,085
Total Fees and Other	491,503	355,418	136,085
Carried Interest	543,750	337,459	206,291
General Partner Capital Interest	94,413	56,775	37,638
Total Capital Allocation-Based Income	638,163	394,234	243,929
Total Revenues	$1,129,666	$749,652	$380,014

Prior to January 1, 2018, to the extent an investment fund was not consolidated, KKR accounted for carried interest within Fees and Other separately from its general partner capital interest, which was included in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Effective January 1, 2018, the carried interest component of the general partner interest and the capital interest KKR holds in its investment funds as the general partner are accounted for as a single unit of account and reported in capital allocation-based income within Revenues in the condensed consolidated statements of operations. This change in accounting principle has been applied on a full retrospective basis. See Note 2 "Summary of Significant Accounting Policies" to the condensed consolidated financial statements included elsewhere in this report.

Total Fees and Other for the three months ended September 30, 2018 increased compared to the three months ended September 30, 2017 primarily as a result of an increase in transaction fees, expense reimbursements and management fees, partially offset by an increase in fee credits and a decrease in incentive fees.

For a more detailed discussion of the factors that affected our transaction fees, monitoring fees, and incentive fees during the period, see "—Segment Results—Segment Revenues."

The increase in management fees during the three months ended September 30, 2018 compared to the prior period was primarily due to new management fees earned from our Global Infrastructure Fund III when it entered its investment period in the second quarter of 2018. Partially offsetting this increase was a decrease in management fees related to a reduction in management fees in our BDC platform as a result of the FS Investments Transaction that closed in the second quarter of 2018. Prior to the closing of the FS Investments Transaction, KKR recorded management fees as an advisor and sub-advisor to its BDC platform. Subsequent to the closing, KKR reports its investment in FS/KKR Advisor, LLC using the equity method of accounting. Accordingly, the management fees from our BDC platform that had been reported in fees and other prior to the closing of the transaction on April 9, 2018, are reflected as part of our allocation of the net income of FS/KKR Advisor, LLC after April 9, 2018, resulting in a decrease in our reported management fees when compared to the prior period. For a more detailed discussion of the factors that affected our management fees during the period, see "—Segment Results—Segment Revenues."

The increase in carried interest and general partner capital interest during the three months ended September 30, 2018 was due primarily to a higher level of net appreciation in the value of our private equity portfolio as compared to the three months ended September 30, 2017. For a more detailed discussion of the factors that affected our Private Markets and Public Markets carried interest during the period, see "—Segment Results—Segment Revenues—Private Markets Revenues—Realized Performance Income" and "—Segment Results—Segment Revenues—Public Markets Revenues—Realized Performance Income." For a more detailed discussion of the factors that affected our general partner capital interest during the period, see "—Segment Results—Segment Revenues—Principal Activities Revenues—Realized Investment Income."

Compensation and Benefits Expenses

The increase was primarily due to (i) higher overall compensation driven by a higher level of fees and (ii) a higher level of compensation primarily reflecting a higher level of appreciation in the value of our private equity portfolio during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. Additionally, there were higher equity-based compensation charges resulting from an increase in the number of unvested shares outstanding.

General, Administrative and Other Expenses

The increase during the three months ended September 30, 2018 compared to the prior period was primarily due to (i) an increase in placement fees incurred in connection with capital raising activity during the three months ended September 30, 2018 as compared to the prior period and (ii) an increase in expenses reimbursable by investment funds. These increases were partially offset by a lower level of financing costs incurred related to debt at new consolidated CLOs during the three months ended September 30, 2018 as compared to the prior period.

Net Gains (Losses) from Investment Activities

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

	Three Months Ended	
	September 30, 2018	September 30, 2017
	($ in thousands)	
Private Equity	$572,137	$151,782
Credit	(249,623)	(41,250)
Investments of Consolidated CFEs	69,831	(39,892)
Real Assets	95,548	80,696
Equity Method - Other	126,247	(135)
Other Investments	5,358	(26,454)
Debt Obligations and Other	(51,055)	20,959
Other Net Gains (Losses) from Investment Activities	98,288	(93,702)
Net Gains (Losses) from Investment Activities	$666,731	$52,004

Prior to January 1, 2018, to the extent an investment fund was not consolidated, KKR accounted for its general partner capital interest in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Effective January 1, 2018, the general partner capital interest and the carried interest component of the general partner interest are accounted for as a single unit of account and reported within Revenues in the statements of operations. This change in accounting has been applied on a full retrospective basis. See Note 2 "Summary of Significant Accounting Policies" to the condensed consolidated financial statements included elsewhere in this report.

Net Gains (Losses) from Investment Activities for the three months ended September 30, 2018

The net gains from investment activities for the three months ended September 30, 2018 were comprised of net realized gains of $241.1 million and net unrealized gains of $425.7 million.

Realized Gains and Losses from Investment Activities

For the three months ended September 30, 2018, net realized gains related primarily to realized gains on (i) the partial sale of our investment in First Data Corporation (NYSE: FDC) which is held as a direct co-investment by KKR, (ii) the sale of assets in our consolidated special situations funds and (iii) the sale of real estate investments held through certain consolidated entities.

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Unrealized Gains from Investment Activities

For the three months ended September 30, 2018, unrealized gains were driven primarily by (i) mark-to-market gains in portfolio companies in our core investment strategy, the most significant of which were USI, Inc. (financial services sector), Heartland Dental LLC (health care sector) and PetVet Care Centers, LLC (health care sector), (ii) mark-to-market gains on our investment in First Data Corporation which is held as a direct co-investment by KKR, (iii) mark-to-market gains in our growth equity investments held directly by KKR and certain consolidated entities, and (iv) mark-to-market gains on investments in our energy portfolio held through certain consolidated entities.

Unrealized Losses from Investment Activities

Partially offsetting the unrealized gains above were unrealized losses relating to (i) mark-to-market losses on alternative credit assets held in our consolidated special situations funds, our investment in Preferred Sands, Inc. (energy sector) held as a direct co-investment by KKR, our investment in HDFC Bank Limited (NYSE: HDB) held as a direct investment by KKR and on investments held at our India debt financing company and (ii) the reversal of previously recognized unrealized gains relating to the partial sale of First Data Corporation, assets sold in our consolidated special situations funds and the sale of real estate investments held through certain consolidated entities.

Since September 30, 2018, the broader equity markets have experienced significant volatility, with the S&P 500 Index falling by 7.2% between September 30, 2018 and October 25, 2018. Such volatility and uncertainty could make it more difficult to consummate new investments or exit our existing investments. Further, if the broader equity market continues to experience volatility and downward pressure in the fourth quarter of 2018, valuations of our investments may be negatively impacted, which may result in a lower valuations for these investments compared to September 30, 2018.

For a discussion of other factors that affected KKR's investment income, see "—Segment Analysis."

Net Gains (Losses) from Investment Activities for the three months ended September 30, 2017

The net gains from investment activities for the three months ended September 30, 2017 were comprised of net realized losses of $(47.4) million and net unrealized gains of $99.4 million.

Realized Gains and Losses from Investment Activities

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. (NYSE: USFD).

Unrealized Gains from Investment Activities

For the three months ended September 30, 2017, unrealized gains were driven primarily by (i) mark-to-market gains on investments held directly by KKR and in certain consolidated entities, the most significant of which were unrealized gains in The Hut Group Limited (retail sector), and (ii) the reversal of previously recognized unrealized losses relating to the sale of investments held by consolidated CLOs.

Unrealized Losses from Investment Activities

Partially offsetting the unrealized gains for the three months ended September 30, 2017 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, PRA Health Sciences, Inc., and US Foods Holding Corp. and (ii) losses on alternative credit assets held in our consolidated special situations funds and held as a direct co-investment by KKR.

For a discussion of other factors that affected KKR's investment income, see "—Segment Analysis."

Dividend Income

During the three months ended September 30, 2018, the most significant dividends received included $12.8 million from our consolidated energy funds and $12.5 million from our consolidated real estate funds. During the three months ended

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September 30, 2017, the most significant dividends received included $6.7 million from real estate, credit and other investments held directly by KKR and $4.8 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—Segment Revenues—Principal Activities Revenues—Realized Investment Income."

Interest Income

The increase in interest income during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily due to a higher level of interest earned related to (i) the closing of six additional CLOs subsequent to the three months ended September 30, 2017, (ii) an increase in the amount of additional capital deployed in investments held by KKR Real Estate Finance Trust Inc. ("KREF"), and (iii) an increase in the amount of investments held in our consolidated credit funds compared to the prior period. These increases were partially offset by a decrease in interest income as a result of the sale of KKR's beneficial interest in four consolidated CMBS vehicles held by KREF that resulted in the deconsolidation of such vehicles subsequent to September 30, 2017. For a discussion of other factors that affected KKR's interest income, see "—Segment Results—Segment Revenues—Principal Activities Revenues—Realized Investment Income."

Interest Expense

The decrease in interest expense during the three months ended