

CREATING SUSTAINABLE VALUE



KKR

**PROGRESS THROUGH PARTNERSHIP
2013 ESG AND CITIZENSHIP REPORT**

Creating Sustainable Value Progress Through Partnership

Since KKR opened our doors in 1976, the world has changed dramatically. Business objectives have shifted from solely creating shareholder value to supporting and ensuring shared value for multiple stakeholders.

KKR's approach to investing has evolved also. We are always striving to provide solutions to challenges faced by our fund investors, portfolio companies, and communities. As part of this evolution, we have worked to thoughtfully incorporate environmental, social, and governance (ESG) factors in our decision-making processes.

The progress highlighted in this report is a testament to the partnerships that have guided our efforts during the past six years. While KKR has made great strides, we believe that our work is far from over and seek to create additional value as our journey continues.



KKR

About This Report

Since we published our first ESG report, we have learned that our decisions can affect companies, communities, and individuals; and we believe that by including environmental, social, and governance (ESG) considerations in our investment decisions, we are smarter, more responsible investors. We also believe that by being smarter investors, we can better achieve our greatest social impact: the returns generated for millions of retirees and pensioners around the world. As part of this effort, we seek to be transparent about the work that we do and share our progress publicly.

This is KKR's fourth ESG report and covers the 2013 calendar year, along with select forward-looking initiatives for 2014. Similar to past reports, we focus on what we consider to be our most material ESG issue: how ESG considerations are integrated throughout our investment processes.

Based on feedback about last year's report, we have included more information in this report about the processes in place for our private equity portfolio (pp. 22-23), the team members and external partners driving these processes (pp. 14-15), and our progress against ESG-related goals (p. 8).

Guiding Frameworks

We seek to align our reporting efforts with leading frameworks and methodologies. As a signatory of the voluntary framework of the United Nations-backed Principles for Responsible Investment (PRI), we organize our key performance indicators (KPIs) (pp. 48-50) around the PRI's six principles. We also apply the Global Reporting Initiative's Technical Protocol to determine our most material issues and guide our report content.

Note that as used in this report "portfolio company" refers to the portfolio companies of our private equity funds. While we evaluate ESG issues with respect to other asset classes, the description of ESG initiatives and the integration of ESG issues in the investment processes, as described in this report, are limited to our private equity investment process and private equity portfolio companies, unless otherwise specifically described.

All information and data in this report are as of December 31, 2013, unless otherwise noted. Additional information about our report and reporting process can be found in Important Information (p. 51). The KKR 2013 ESG Report microsite at www.kkresg.com offers a PDF of this report and additional information about our ESG performance and programs. For links to accompanying resources cited throughout this report, see Online Resources (p. 51).

Thank you for being with us on this journey. We are working continuously to improve upon the foundation we have built.

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2013 ESG REPORT HIGHLIGHTS



Instructions for Using QR Codes in This Report

The QR codes in this report provide easy access to the KKR ESG report microsite and supplementary materials. Use the QR code on the left to view the microsite. To use the QR codes, first download a QR code reader app, such as Scan for iPhones or Beetagg for other devices. Start the reader app and hold the mobile device over the QR code to access additional content.

KKR at a Glance

KKR is one of the world's most successful global investors with a variety of investment funds covering multiple asset classes. In private equity, KKR seeks to be a partner of choice for our fund investors and a solutions provider to our private equity portfolio companies around the world. We engage with our fund investors and companies through a network of 18 offices located on five continents.

Private Markets

KKR's Private Markets segment focuses on investing in quality companies and partnering with their management to help them improve and grow. We have consistently set new standards of achievement and innovation in this area, and continue to enter new markets, enabling our portfolio companies to adapt to a range of economic environments, and finding creative solutions to meet their needs. Our Private Markets segment brings together our investment capabilities in private equity, real estate, and energy and infrastructure.

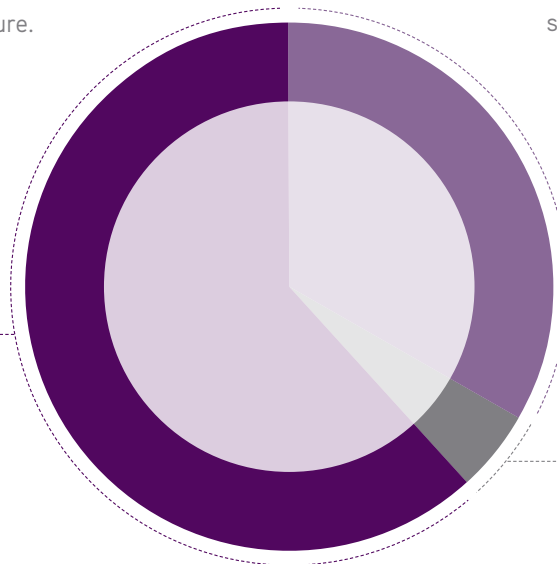
Public Markets

KKR's Public Markets segment offers investment products across a range of leveraged credit, alternative credit, and hedge fund strategies. Public Markets draws on the Firm's deep intellectual capital and industry expertise, global network of relationships, and, when appropriate, our knowledge of markets to identify emerging investment opportunities.

Capital Markets and Principal Activities

KKR's Capital Markets segment supports our Firm, our portfolio companies, and third-party clients in developing and implementing innovative capital solutions for investments or companies seeking financing. Through Principal Activities, we invest KKR's own principal assets in our investment funds and portfolio companies. This allows us to grow and expand our business while further aligning our interests with those of our fund investors and other stakeholders.

\$61.2 Billion
Assets Under Management (AUM)
Private Markets



\$35.1 Billion
Assets Under Management (AUM)
Public Markets

\$4.8 Billion
in Investments
Capital Markets and
Principal Activities

ESG Management in Our Investment Portfolio

We know from conducting our own materiality assessment that our greatest potential for impact is the management of ESG issues in our 87 portfolio companies and in select non-private equity asset classes. This report focuses on our activities in these two investment areas.

Private Equity Portfolio Companies

60

ESG-Related Awards

Received by 24 companies since 2012

940,000

Approximate number of people employed globally by KKR's private equity portfolio companies

40

Million

Retirees and pensioners with exposure to KKR's investments

\$200

Billion

In annual revenues from portfolio companies

\$366

Million

Invested by portfolio companies in research and development

\$4.4

Billion

Roughly the amount KKR and our employees have invested or committed alongside our fund investors

Non-Private Equity Asset Classes



Real Estate

\$700 million of equity committed to 13 real estate transactions in the U.S. and Europe



Infrastructure

Six renewable energy investments since 2010



Energy

\$518 million total capital deployed in oil and gas real assets (non-PE)

From the Founders

“Responsible investment is not just the right thing to do; it is also essential for smart investing. Our commitment to creating sustainable value has never been stronger. As we reflect on the last six years, three themes have proven consistently important to our progress toward creating shared value: the power of private equity, the value of partnerships, and the benefits of focusing on performance.”

– Henry R. Kravis and George R. Roberts

A CONVERSATION WITH OUR FOUNDERS

Q. What does being a responsible investor mean to KKR? What does it mean to you?

Henry R. Kravis (HRK): For KKR, responsible investment refers to the incorporation of ESG considerations into investment decision-making and management practices. It is about understanding modern day challenges, embedding operational excellence into businesses, and, in the end, creating sustainable value for our Firm and our fund investors. Responsible investment is at its core about a new way of looking at needs and opportunities, and ultimately, it is a way of doing business that we believe makes us smarter, better investors.

George R. Roberts (GRR): As for us, personally, investing responsibly fits in squarely with the values on which we built the Firm 38 years ago – excellence, innovation, teamwork (p. 7). So not only is this the right thing to do, but it is the good thing to do for the long-term strength of our business. Henry and I truly believe that you cannot be a good investor today unless you are managing your impacts and considering their implications for your bottom line.

HRK: Our view has always been that if a company doesn't take care of its own community, its own backyard, then it is not going to grow and reach the pinnacle of what it can achieve. We want our companies to maximize their success. Integrating ESG management into our investment

processes has been a growing part of value creation during the past six years.

Q. What are a few of the 2013 ESG or citizenship highlights you are most proud of?

GRR: There are two 2013 ESG milestones that I think will give us an edge in the future: the creation of the KKR Global Institute (KGI) and the development of a formal KKR Private Equity ESG Policy. KGI supports the Firm and our portfolio companies with unique insights (p. 15) and strengthens our ESG-related diligence and ongoing issues management, particularly as we invest in frontier and capital markets, where the companies with which we partner can help build stronger economies, healthier societies, and examples of good governance. It is a differentiator for the Firm and I truly believe it will enhance all of our efforts. Regarding our new ESG policy, it not only codifies our work to date, but it also serves to align the Firm internally to ensure we are moving forward most effectively. Moreover, it clearly demonstrates to our external partners and the public at large where we stand and what we mean in reference to ESG management.

HRK: Seeing the impact of our work with East Bali Cashews (EBC), Bali's first large-scale cashew processing facility



Henry R. Kravis and
George R. Roberts
Co-CEOs and Co-Chairmen

(p. 17), was a proud moment for both George and me in the past year. I believe one of our core competencies is our teams' understanding of business operations and efficiency. By partnering with the leadership team of EBC, we were able to refine and scale many of the existing components of the business, while thinking creatively to solve challenges and better plan for the future. This collaboration helped raise a needed round of funding for EBC and helped KKR realize another way the Firm can add value to the communities around us.

Q. You have been partners since KKR opened its doors. How has partnership been critical to the Firm's ESG-related efforts?

HRK: We firmly believe KKR's success has been built around a single core concept: partnership. For nearly four decades we have seen how partnerships lead to greater value creation. Now we know partnerships also lead to real improvements in environmental and social performance and better governance. Partners help us work through a wide range of ESG challenges and opportunities that can impact our private equity portfolio companies.

GRR: We strive to be a partner of choice for those who invest in our funds, our more than 85 private equity portfolio companies, and our nonprofit network, such as Environmental Defense Fund, Business for Social Responsibility, Ceres, Transparency International, and the American Heart Association.

Q. How do you see the industry changing around responsible investment? How does KKR stay ahead?

GRR: The private equity industry has come a long way in terms of ESG management during the past six years. Whether creating tools, hiring sustainability experts,

or enhancing transparency, a lot of work is being done in the private equity space, but we still see a lot of opportunity. Our efforts to date are significant. We have instituted a formal ESG due diligence process, measured initiatives like the Green Portfolio Program – which in 2013 reported nearly a billion dollars in financial impact – and scaled efforts like Vets @ Work – which supported our portfolio companies in hiring more than 21,000 veterans since 2011. Moving forward, we aim to engage more portfolio companies and share the key learnings and expert resources that have come out of our proactive programs.

HRK: We also need to look outside of private equity in order to stay ahead, meaning we have to continue to discuss how to integrate ESG considerations into other asset classes. This has not always been easy, but we have made some progress in the past two years by embedding ESG-related initiatives into our real estate business and making ESG-focused infrastructure investments (pp. 35-36). We will continue this discussion with our teams and stakeholders to ensure we are moving forward in ways that make sense for everyone involved.

GRR: With regards to staying ahead, we are looking for ways to leverage our ESG track record by doing more deals where sustainability or social benefits are at the core of the business. We plan to look more and more at investments where ESG principles are not simply applied to the business, but rather, where an ESG strategy is the business (p. 26). This means finding companies that define their success by their level of social impact, their profitability, and their potential for growth.

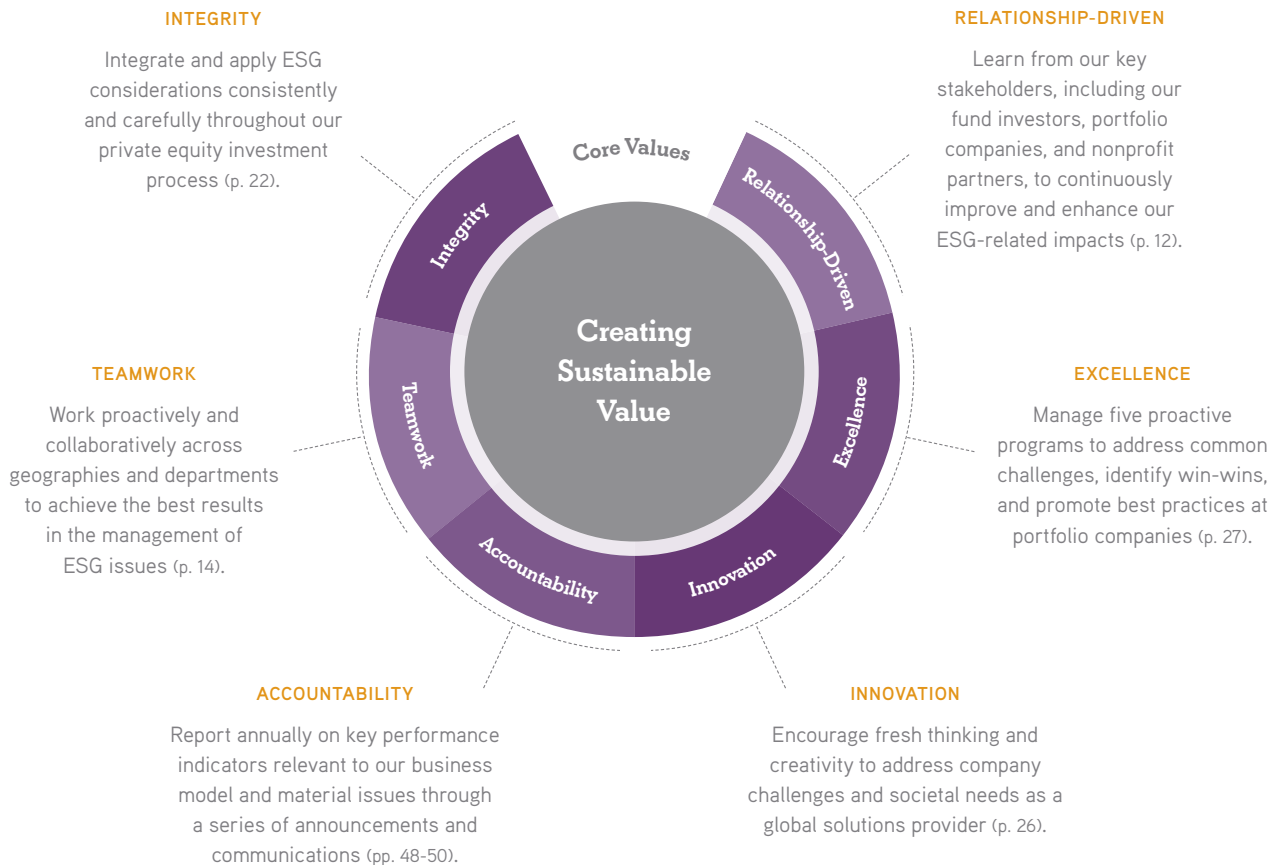
HRK: I can guarantee that no matter what the future holds, we are committed to expanding our ESG-related processes and programs, connecting with our partners, and learning from our portfolio companies.

You cannot be a good investor today unless you focus on stakeholder engagement as part of your bottom line.



KKR's Approach to ESG Management

Our founders established the Firm in 1976 based on a unique spirit of partnership, a shared sense of ownership, and a strong set of core values. The original core values are still ingrained in the organization today and are fundamental to how we do business, including how we manage ESG considerations throughout our private equity investment process. We believe that these values and our commitment to responsible investment are essential to creating sustainable value.



2013 ESG Progress and Highlights

During 2013, we made significant progress toward our three overarching ESG goals.

GOAL 1:

Continue to scale ESG management across our private equity investment decisions

DUE DILIGENCE

- Improved documentation and tracking of ESG-related diligence
- Enhanced or created five additional industry templates for use by industry teams in diligence efforts; engaged experts from Sustainalytics and Environmental Resources Management (ERM) for diligence support

RESPONSIBLE SOURCING

- Screened two additional portfolio companies on sourcing practices and moved one company out of the “needs improvement” category

- Conducted two webinars featuring our proprietary guidebook

GREEN PORTFOLIO PROGRAM

- Reported results from participating portfolio companies with more than \$917 million in financial impact achieved and 1.8 million metric tons of greenhouse gas emissions, 4.7 million tons of waste, and 19.5 million cubic meters of water avoided since 2008
- Distributed the *KKR Green Portfolio Program Handbook* and conducted six related webinars with ICF International

WELLNESS WORKS

- Added four portfolio companies to the program, bringing the total to nine
- Launched a multiyear research study with the University of Pennsylvania on the effectiveness of workplace wellness initiatives

VETS @ WORK

- Added nine portfolio companies to the program, bringing the total to 18
- Hired, collectively through portfolio companies, more than 21,000 veterans since 2011
- Hosted two webinars on best practices

GOAL 2:

Support and advance ESG management across the private equity industry

FUND INVESTOR ENGAGEMENT

- Held two ESG round tables and three regional investor conferences, where we delivered various presentations on ESG-related issues

PRIVATE EQUITY INDUSTRY BEST PRACTICES

- Developed a publicly available ESG policy for our private equity business

- Spoke at 16 conferences, including five keynotes
- Served on the independent Standards Council of the Sustainability Accounting Standards Board (SASB)
- Convened an ESG working group of our U.S.-based private equity peers

GOAL 3:

Integrate ESG management into non-private equity asset classes

- Enhanced oversight and documentation for energy investments by creating a review process
- Included executives from energy and infrastructure, real estate, and special situations in our diligence process
- Integrated environmental initiatives into select real estate investments

Our responsible investment approach is constantly evolving, and our efforts during the past six years have been marked by many milestones. Key ESG milestones from 2008-2013 are highlighted on our microsite. Scan this QR code to view.





We work to provide solutions to both the ordinary and extraordinary challenges facing investors, companies, and communities today.

“Engaging thoughtfully with our stakeholders means thinking not only about what happens inside the company, but also about who is affected on the outside.”

Ken Mehlman

Member,
Global Head of Public Affairs



“By deepening its commitment to responsible investment, KKR has helped to catalyze a new trend across the private equity industry.”

Tom Murray

Vice President,
Corporate Partnerships
Environmental Defense Fund



Our Commitment and Approach

We are committed to working together – as one Firm – to manage ESG factors in our investments. This includes defining our material issues, proactively engaging with our stakeholders, leveraging the advantages of our business model, and fostering strong partnerships to better contribute as a responsible member of an increasingly complex and interconnected global system.

“Responsible investment practices create opportunities for KKR and for our investment partners. In all that we do, we are focused on identifying needs and opportunities, always striving to be part of the solution.”

Janice Cook Roberts
Director,
Client and Partner Group



“We’ve established a strong track record and our goal is to stay on the leading edge. This means becoming increasingly innovative when working with our companies and other partners.”

Elizabeth Seeger
Principal,
Business Operations

“The KKR Global Institute provides KKR decision-makers with insights on the political landscape and on global trends that have the potential to shape investments.”

Vance Serchuk
Executive Director,
KKR Global Institute



ESG Management Is Smart Business

Today, enhancing value and the bottom line often means improving the environmental, social, and governance (ESG) aspects of a business.

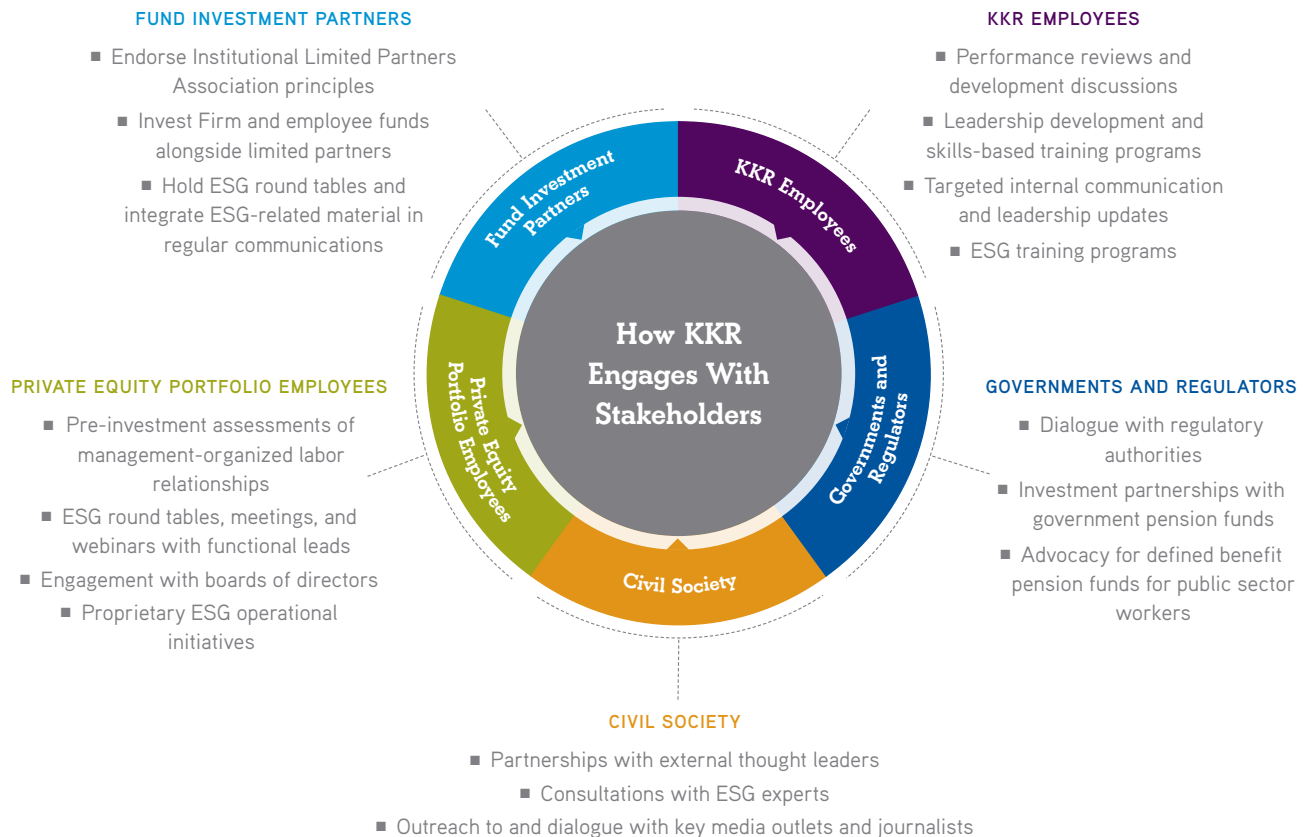
We believe that the thoughtful management of ESG issues is smart business and see it as an essential part of long-term success in a rapidly changing world. KKR is committed to investing responsibly by integrating ESG considerations throughout our investment processes.

Companies that carefully manage ESG risks and opportunities today should be better situated in the future as diminishing resources, changing consumer demands, and increased regulation are expected to pose greater challenges and opportunities. We believe that our capital, operational capabilities, and long-term ownership model uniquely position us to be part of the solution in an increasingly complex world.

Engaging With Stakeholders

Returns for our fund investors are fundamental to our success.

We work diligently to promote thoughtful discussion of difficult situations with our internal and external partners, while acting in a way that is consistent with our fiduciary duties. As part of this effort, we conducted a materiality



assessment in 2010 using guidance from the Global Reporting Initiative (GRI).

According to the assessment, our most material issue is the process by which we ensure that the consideration and management of relevant ESG risks and opportunities are integrated in the pre-investment and portfolio management phases of our investment cycles, particularly in private equity (pp. 22-23).

In 2011, we applied the GRI's Technical Protocol to our assessment and confirmed our areas of focus. For more information, see Online Resources (p. 51). In 2012 and 2013, we solicited stakeholder and subject matter expert feedback on our report and areas for improvement. We have attempted to address some of this feedback in the About This Report section. Other suggestions, such as quantifying progress on material issues, continue to pose challenges (p. 49). We appreciate stakeholder input in all our efforts and seek continuous improvement in our reporting.

Critical Relationships for Responsible Investing

Engaging proactively with key stakeholders helps ensure that our approach to investing is well-informed and that we are setting shared priorities, adjusting our approach, and learning from our mistakes. It also allows us to communicate our efforts, thereby demonstrating results and progress over time to our stakeholders. For these reasons, honing our focus on stakeholder engagement has been central to our philosophy from the beginning and is a capability that we constantly strive to improve.

Our partners and stakeholders include groups and individuals, such as the management teams and employees of the companies in which we invest, the individuals and institutions that invest alongside us, the communities affected by our investments, governments and regulators, nongovernmental organizations (NGOs) including unions, and our own employees. We believe that protecting and enhancing these relationships, as shown on the previous page, is critical to smart investing and creating long-term, sustainable value.

Creating Value Through Partnerships

For 38 years, we have seen how partnerships can lead to greater value creation.

From our internal teams, to nonprofit advisors, to the investment community, each partner brings different expertise and helps to ensure that we remain at the leading edge of emerging issues and expectations. Our progress in reaching our ESG-related goals is due to our strong network of internal and external partners.

Healthy partnerships start inside our Firm. KKR's one-firm approach guides all that we do (p. 14) and ensures that members of various teams are engaged throughout our responsible investment efforts (pp. 22-23).

We gain great knowledge and credibility by going outside of our organization and partnering with thought leaders. During the past six years, we have built and deepened our relationships with various nonprofit partners, which has helped our Firm and portfolio companies navigate a wide range of ESG risks and opportunities.

What Are ESG Issues?

Although ESG issues vary among companies, depending on their industry, geography, and stakeholders, the following list provides some examples:



Environmental

- Land Use
- Carbon and Greenhouse Gas Emissions
- Biodiversity
- Natural Resource Scarcity
- Priority Chemicals
- Water Scarcity



Social

- Employee Relations and Labor Engagement
- Health and Wellness
- Safety
- Consumer Protection
- Data Privacy
- Human Rights



Governance

- Regulation
- Anti-fraud and Anti-corruption
- Ethics and Integrity
- Stakeholder Expectations
- Transparency
- Board Composition and Independence

Our “One-Firm” Approach

Our one-firm philosophy means we work proactively and collaboratively across geographies and departments to achieve the best results in all aspects of our business, including the management of ESG issues.

ESG MANAGEMENT	
INVESTMENT PROFESSIONALS	<ul style="list-style-type: none"> Consists of a team of 260 investment professionals, who are experts in the industries in which we invest Identifies potential investments and works on relevant ESG issues during the pre-investment and investment phases
GLOBAL PUBLIC AFFAIRS	<ul style="list-style-type: none"> Consists of a team of 12 professionals who form the core of ESG expertise and stakeholder engagement efforts at KKR Manages the ESG aspects of the due diligence process Leads proactive ESG programs for the private equity portfolio and responds to individual company needs across asset classes
KKR CAPSTONE ¹	<ul style="list-style-type: none"> Consists of a team of 60 operational experts dedicated to creating value by driving improvements at KKR portfolio companies Helps implement our ESG programs, partnering with the Global Public Affairs team to lead the Green Portfolio Program, KKR Wellness Works, Vets @ Work, and Responsible Sourcing Initiative
CLIENT AND PARTNER GROUP	<ul style="list-style-type: none"> Consists of a team of 75 professionals focused on building, maintaining, and expanding relationships with our clients Listens and responds to ESG questions or suggestions from our fund investors Partners with Global Public Affairs to unite the private equity investment chain – from limited partner to general partner to portfolio company – to share and discuss ESG best practices
KKR GLOBAL INSTITUTE	<ul style="list-style-type: none"> Consists of a team of two geopolitical strategists who provide global insights on the regions in which we invest Focuses on risk assessment and mitigation in the due diligence process Supports our investment process by identifying and monitoring global investment opportunities
LEGAL AND COMPLIANCE	<ul style="list-style-type: none"> Consists of a team of 36 lawyers, paralegals, and compliance professionals Assists in our ESG due diligence process by assessing prospective investments on key governance issues, such as anti-corruption Works with our portfolio companies on these issues after we have made an investment

¹ See Important Information regarding KKR Capstone (p. 51).

Industry collaboration is critical as we, along with our peers, continue our work to consistently and thoughtfully manage these ESG issues. Therefore, we aim to engage with our peers in financial services to promote responsible investment and encourage dialogue to achieve common goals. We did this in 2013 through several efforts:

- Spoke at [conferences](#), including PublicAffairsAsia's Sharing Value Forum in Singapore, Business for Social Responsibility's 2013 Conference in San Francisco, and SuperReturn International in Europe
- Hosted [ESG events](#) for fund investors in North America and Europe
- Participated in [surveys and industry reports](#) on trends and best practices
- Contributed to the development of [guidelines for ESG reporting](#), through the Sustainability Accounting Standards Board (SASB) and by providing feedback to the PRI reporting and assessment process
- Convened a [working group](#) of our U.S.-based private equity peers to discuss responsible investment practices and policies

These efforts are in addition to our active engagement with our peers as signatories of the PRI. We look forward to additional collaboration with the investment community in 2014. To view the six PRI principles and for a list of our network of partners and advisors, see Online Resources (p. 51).

To demonstrate our commitment to ESG management, in 2009, we signed the United Nations-backed Principles for Responsible Investment (PRI). Where consistent with our fiduciary responsibilities, we commit to following the PRI's six principles for our private equity investments.

Seizing Opportunities and Navigating Risks With a Global Perspective

The KKR Global Institute supports the investment process at KKR by identifying and analyzing key geopolitical and macroeconomic trends.

Anticipating, understanding, and managing geopolitical and macroeconomic developments – along with trends in technology, demography, and the environment – are critical to smart investing, portfolio management, and risk mitigation.

Those are the reasons we established the KKR Global Institute (KGI) in 2013, under KGI chairman General (Ret.) David Petraeus and executive director Vance Serchuk.

The mission of KGI is to ensure KKR understands the full range of geopolitical and macroeconomic issues that can shape where we should invest and how we can help companies grow – from negotiations over multilateral trade deals and changes in regulatory policy, to the emergence of new “breakout nations” and the economic impact posed by the threat of conflict around the world. Integrating with the unique capabilities of KKR's Global Public Affairs team led by Ken Mehlman and the Global Macro and Asset Allocation team led by Henry McVey, KGI works with industry teams throughout the ESG-related diligence process, and supports KKR portfolio companies as they seek to expand their operations globally and navigate particular geographies.

The addition of KGI, and its expertise, strengthens the Firm's longstanding commitment to finding the best possible investments and creating value around the world.

[View our video
on Creating
Sustainable Value](#)



Solving Problems in Special Situations

One of KKR's newer funds is the KKR Special Situations Fund. The special situations strategy invests across the capital structure in both privately negotiated transactions and in the secondary markets, seeking to earn strong risk-adjusted returns from market dislocations, complex situations, and distressed assets. KKR employs a partnership approach when working with companies and seeks unique opportunities to offer solutions to these companies and their stakeholders. The special situations strategy is dynamic and able to deploy capital in multiple ways to capture opportunities arising from market dislocation.

Across the globe, we have identified a number of opportunities to invest in good companies in need of a partner with long-term capital to help them grow or to restructure. In each case, our goal is to be a constructive partner of choice while also delivering strong returns for our investors. We are applying our private equity due diligence process to our special situations investments and, where applicable, we are working with companies after investments have been made.

A Platform for Boosting Business Performance

KKR considers the private equity model to be a strong platform for boosting business performance while having a positive ESG impact because of our active, long-term investment approach.

Recognizing this, and that managing ESG issues in our private equity investments is our most material ESG impact (p. 20), we work to embed ESG management throughout our investment process.

For example, our private equity investments undergo a rigorous due diligence process, including, when relevant, a review of how potential portfolio companies manage environmental, social, and governance issues (pp. 22-23).

After we have made an investment, our private equity portfolio companies may participate in relevant proactive ESG programs (pp. 27-34). We work with portfolio company management teams to determine the programs and activities that are most applicable to their business. We also offer management teams expertise and resources to achieve ESG-related goals. Our internal teams, including investment professionals, Global Public Affairs, Legal and Compliance, and the Client and Partner Group (p. 14), work together with KKR Capstone to provide strategic advice and operational support.

Private Equity's Role in a Healthy Global Economy

Private equity can play a significant role in the global economy because of the direct and indirect benefits this model brings to our fund investment partners, our portfolio companies, and our shared communities.

Companies today face increasing pressures and challenges, such as uneven global growth, resource constraints, deleveraging, increased regulation, and demands for greater transparency. As a result, they often need capital, a long-term investment approach, and management expertise. We choose to invest in companies that are poised for growth, are undervalued, or are underperforming, and work with them to increase their value. We believe that our private equity model provides a good platform on which to work with these companies to increase their value. In particular, the private equity model for responsible investment offers three distinct advantages:

- Because private equity measures progress over a **longer-term horizon** of years, not quarters, we can focus on longer-term improvements.
- We work to **align our interests** across key stakeholder groups to focus on mutually agreed upon objectives and to seek greater success.
- Being **active investors** in our portfolio companies helps ensure that everyone is working toward shared goals and focused on providing the resources that achieve desired outcomes.

Benefiting Our Investors and Their Beneficiaries

For nearly four decades, large institutional investors have partnered with KKR for our investment strengths and industry knowledge. These institutions are fiduciaries and stewards for others. The returns on their investments in our funds and strategies are an essential component to the retirement security and well-being of their beneficiaries. These beneficiaries include nearly 40 million teachers, firefighters, police officers, state and municipal employees, and other professionals.

Moreover, these investors are concerned with making responsible investments or investing with responsible managers. For this reason, we promote responsible investment to create long-term value for our portfolio companies, thereby benefiting our fund investors and, by extension, society as a whole.

Benefiting Communities

Our private equity portfolio companies contribute to their communities through employment and innovation. Worldwide, our private equity portfolio companies employed approximately 940,000 people at the end of 2013: 48 percent in the Americas, 27 percent in Europe, 20 percent in Asia, and 5 percent in other regions. Economic growth and job opportunities are also created through companies' networks of suppliers and other partners.

Our private equity portfolio companies also benefit the greater economy by investing in innovation through their products, services, and facilities. In 2014, select portfolio companies are expected to invest approximately \$366 million in research and development² and \$4.4 billion in capital expenditures.³ We believe that these investments in capital expenditures and research and development are evidence of companies investing in their future and, by extension, in the future of their local economies.

Benefiting Society

Whether developing capsules to effectively deliver medicine in the body or manufacturing equipment to keep workers in high-risk jobs safe, many companies in our portfolio focus on solving societal problems. They meet their business objectives while also having a positive impact on individuals and communities.

KKR's understanding of ESG-related issues and our commitment to being a solutions provider can help contextualize these types of investments. Increasingly, we see the potential for creating value through a deliberate emphasis on companies and businesses that seek to solve ESG-related challenges (p. 26) and will continue to examine these types of potential investments.

²Includes research and development expenditures from KKR private equity portfolio companies. For a complete list of KKR's private equity portfolio companies, visit our website: www.kkr.com/partners/portfolio-partners

³Includes capital expenditures from KKR private equity portfolio companies. For a complete list of KKR's private equity portfolio companies, visit our website: www.kkr.com/partners/portfolio-partners

C A S E S T U D Y



Scaling Social Enterprise: KKR and East Bali Cashews⁴

In 2013, KKR executives teamed with Impact Investment Exchange Asia (IIX) and Impact Investment Shujog (Shujog) to identify an opportunity for KKR to engage with a social enterprise in need of expertise and resources. The team selected East Bali Cashews (EBC), Bali's first large-scale cashew processing facility. EBC uses environmentally friendly practices while also providing employment to villagers in an impoverished community, many of whom are women who have never earned a steady income.

KKR, IIX, and Shujog professionals collaborated with EBC's management team to set financial targets, design a growth strategy, and create a bridge between the enterprise and potential investors. Together we created a business plan, completed a competitive analysis, designed an approach to scale production, and created a social-impact assessment for use with potential investors.

This work enabled EBC to raise \$900,000 in three months and to put that funding into expanding operations and updating machinery. These improvements enabled EBC to create nearly 100 new jobs by December – about 90 percent of which went to local women – and to support EBC workers and their families with not only steady employment, but also access to critical social services.

KKR's commitment and unique skills provided knowledge and operational experience that enabled EBC to create long-term value for the company and community, while demonstrating the power of private equity's expertise.

⁴ East Bali Cashews is not a KKR portfolio company.

“People are at the core of KKR and its portfolio companies. By investing in wellness, KKR is investing in the core of these organizations. That’s an investment KKR will make today, and continue making tomorrow.”

Karr Narula
Director,
KKR Capstone, Americas



“Pollution is expensive. It’s expensive to the environment, to companies, and to communities. If, through KKR’s Green Portfolio Program, we can achieve both bottom-line benefits and environmental benefits, that’s good for everyone involved.”

Anne Arlinghaus
Principal,
KKR Capstone, Europe



“The diversity in the KKR portfolio is a win-win. While we bring a lot of resources and expertise to our companies, we also learn an incredible amount from them.”

Steve Okun
Director,
Asia-Pacific Public Affairs



ESG Management in Our Investment Process

The management of ESG factors has become a core part of the way KKR unlocks value in companies. From diligence to management to exit, ESG considerations are embedded into our private equity decision-making processes.



“We are integrating environmental initiatives in our real estate investments that create savings and improve our footprint in the community.”

Ralph Rosenberg
Member,
Real Estate



“Throughout our time in the KKR portfolio, SunGard has evolved and changed significantly; however, our focus on sustainability as part of the GPP has remained constant.”

Elizabeth Barthelmes
Sustainability Manager,
SunGard

“KKR takes an innovative approach by identifying responsible supply chain management as a key opportunity for value creation. This sets an important precedent for private equity more broadly.”

John Hodges
Director, Financial Services
Business for Social Responsibility



Formalizing Our Approach: KKR's New Private Equity ESG Policy

In 2013, KKR codified our processes and procedures related to responsible investment by developing a global Private Equity ESG Policy.

The policy applies to KKR's private equity investments going forward and establishes the various roles and responsibilities of KKR executives. Additionally, the policy details KKR's goals for ESG-related performance, referring to existing responsible investment frameworks for guidance.

In 2014, we are working to educate KKR executives globally and begin implementing the policy. We will make enhancements to the policy, as necessary. To view a copy of the policy, see Online Resources (p. 51) or scan the QR code below.



View our
Private Equity
ESG Policy

Integrating ESG Management Across Asset Classes

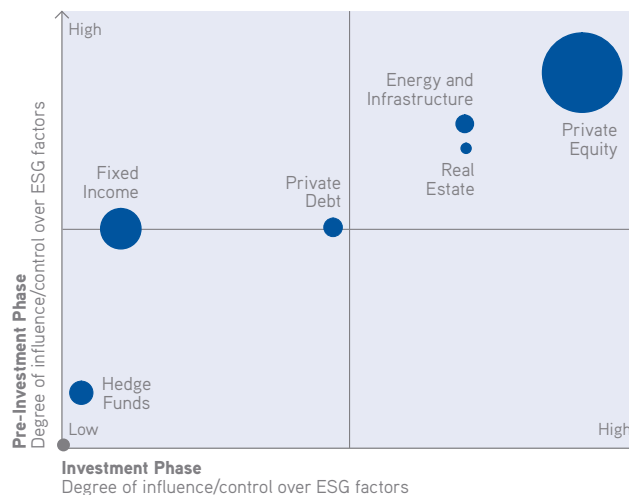
We integrate ESG management into the pre-investment and investment phases of our private equity model, and we are expanding our ESG-related efforts in non-private equity investments.

After more than three decades in business, KKR's reach and capabilities have expanded to meet the growing needs of our fund investment partners, the areas in which we invest, and the shifting dynamics of the global financial markets. While our deep experience in private equity remains central to our business, we now have more flexible capital allowing us to focus on energy and infrastructure, real estate, and a range of debt and public equity investing. For example, one of our new funds is the KKR Special Situations Fund, which targets companies that are in distress due to capital impairments or complex challenges (p. 16).

These investment strategies do not consistently lend themselves to the same ESG-management approach that we apply in our private equity portfolio because of different governing structures and our varying levels of influence. We have worked to customize our responsible investment approach to meet these challenges and are making progress in integrating key ESG considerations and initiatives in many of these investments, including our energy and infrastructure and real estate investments (pp. 35-37).

Because we prioritize our ESG efforts in our private equity business, the majority of this report, particularly section 2, refers specifically to the management of ESG factors in the pre-investment and investment phases of our private equity platform. We also highlight the specific proactive ESG programs that we have in place for relevant companies in our private equity portfolio (pp. 27-34).

Relative Influence and Control Over ESG Issues Across KKR Asset Classes⁵



⁵Chart is for illustrative purposes only and does not contain all of KKR's investment strategies. In addition, the assessment generalizes the extent of influence during the pre-investment and investment phases and is not intended to convey what occurs or what is expected to occur in every case. Ability to influence and control is significantly affected by additional factors beyond KKR's control.



Good investments begin with rigorous due diligence. Our private equity process includes a focused review of how potential investments manage material ESG issues.

The Private Equity Growth Capital Council (PEGCC) Guidelines

As part of our commitment to responsible investment, in 2009 KKR worked with other members of PEGCC to develop Guidelines for Responsible Investment. These guidelines serve as a platform for formalizing and focusing our responsible investment efforts and those of our peers in the private equity industry. In accordance with these guidelines, KKR's private equity funds commit to take labor and other ESG issues into account when making and managing investments. To learn more, see Online Resources (p. 51).

Integrating ESG Management Into the Private Equity Investment Process

The management of ESG factors in our private equity portfolio companies happens throughout our investment process.

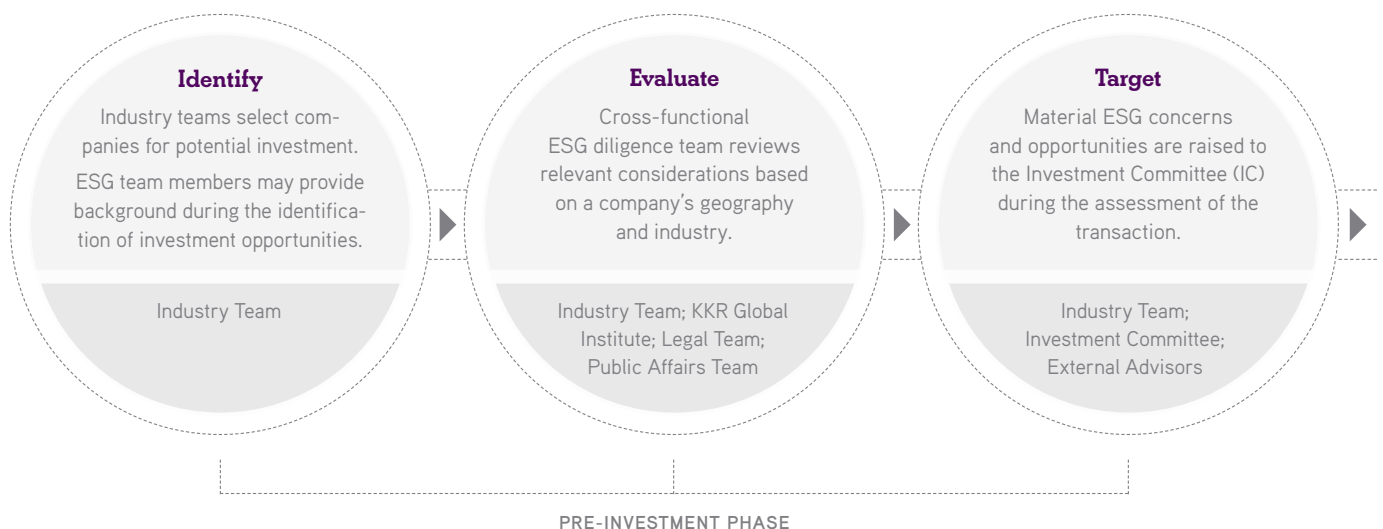
Beginning in the pre-investment phase potential companies are evaluated on a variety of relevant ESG considerations to create a comprehensive sense of the business' impacts beyond just bottom-line performance. Moving into the investment phase our teams work to integrate responsible policies and practices into our portfolio where applicable. A visual summary of this process is below and our efforts are explained in more detail in the pages that follow.

Considering ESG Issues During Pre-Investment

All potential investments at KKR go through a rigorous due diligence process. As part of this process, in conversations with the respective KKR industry teams, cross-functional internal subject matter experts review prospective investments to identify material ESG factors, gather the appropriate information from the company in question, and make informed recommendations about potential risks and opportunities.

Our ESG diligence team also draws on the expertise of a global network of third-party consultants and advisors, where necessary. Working with these external parties, we have developed 22 guides for internal use that provide an in-depth overview of key ESG risks for a wide range of sectors and subsectors,

ESG Management in the Private Equity Investment Process

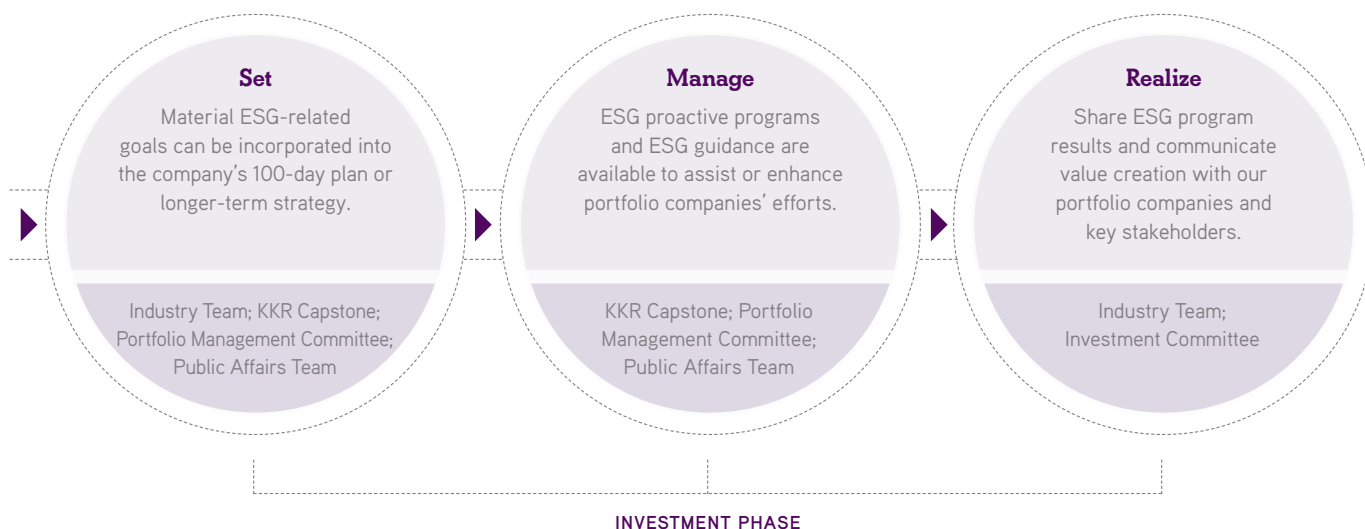


such as health care and managed care facilities. The guides offer key questions and considerations for material ESG factors specific to each industry. Our diligence team uses the guides regularly and we continue to strengthen and improve them over time. In 2013, we began working with the ESG analytics firm Sustainability to help strengthen some of our existing guides.

ESG considerations discovered in the diligence phase can affect our investment decisions; however, a decision to invest or not is rarely due exclusively to ESG issues. ESG-related concerns are often intertwined with other business issues that make the business more, or less, attractive for investment. In some cases, we may decide that an ESG issue poses a risk to our investment, while in other instances, we may determine that a company has significant opportunities because of the way it addresses ESG issues. Understanding the ESG challenges and opportunities of individual investments helps us to determine our best strategy for working with a company in the future. In 2013, our ESG diligence team held approximately 34 diligence meetings, during which an average of approximately four companies were reviewed per meeting for the first time or as a follow-up on ESG-related diligence.

Considering ESG Issues During Investment

After we make a private equity investment, KKR industry teams and KKR Capstone, operational experts who work exclusively with KKR and KKR portfolio companies as well as other KKR investments, partner closely with the company’s management to achieve mutually agreed upon performance goals. To support this effort in the early stages, we develop a detailed 100-day plan to identify goals and the steps needed to achieve them. When critical ESG issues are identified in



Incorporating ESG Opportunities Into the 100-Day Plan

The diligence process, which is an integral element of our pre-investment process, often yields insights that add tangible value to the 100-day plan we develop for each company that makes up our portfolio.

In 2013, KKR invested in a manufacturing company headquartered in Asia with global operations. As part of the diligence process, the KKR deal team based in Asia and the ESG diligence team worked together to identify ESG issues material to that business. Among the issues identified for consideration were the employee health and safety program, environmental compliance, and labor relations. KKR engaged external consultants and interviewed company management to assess the company's strengths and weaknesses regarding these issues.

The diligence process informed our decision-making process and revealed opportunities for improvement. These opportunities were turned into action items that were included and addressed as part of the company's 100-day plan. KKR will continue to track performance on these issues going forward as part of the company's management plan.

the diligence process, they are often included in these plans. When companies do not have material ESG issues that need to be addressed immediately, we may engage with them after the initial transition period.

As in the pre-investment phase, our relationships with our private equity portfolio companies are overseen by our industry teams with support from KKR Senior Advisors, internal experts, and external advisors, as necessary. Each region has a Portfolio Management Committee (PMC) consisting of a chairperson and KKR executives. The PMC may also include KKR Capstone professionals and Senior Advisors. Throughout the management process, the applicable PMC monitors each company's progress and provides input on strategies for realizing additional value (pp. 40-41).

From investment to the point of realizing value and exiting a deal, companies are part of our private equity portfolio for a historical average of five to seven years. This longer-term horizon allows the company to grow, while also providing an opportunity to enhance the management of ESG issues. Throughout our investment period, KKR offers our portfolio companies expertise and resources to achieve ESG-related goals. KKR Capstone works in partnership with the Global Public Affairs team and company leaders on operational issues that affect the bottom line, including various ESG issues.

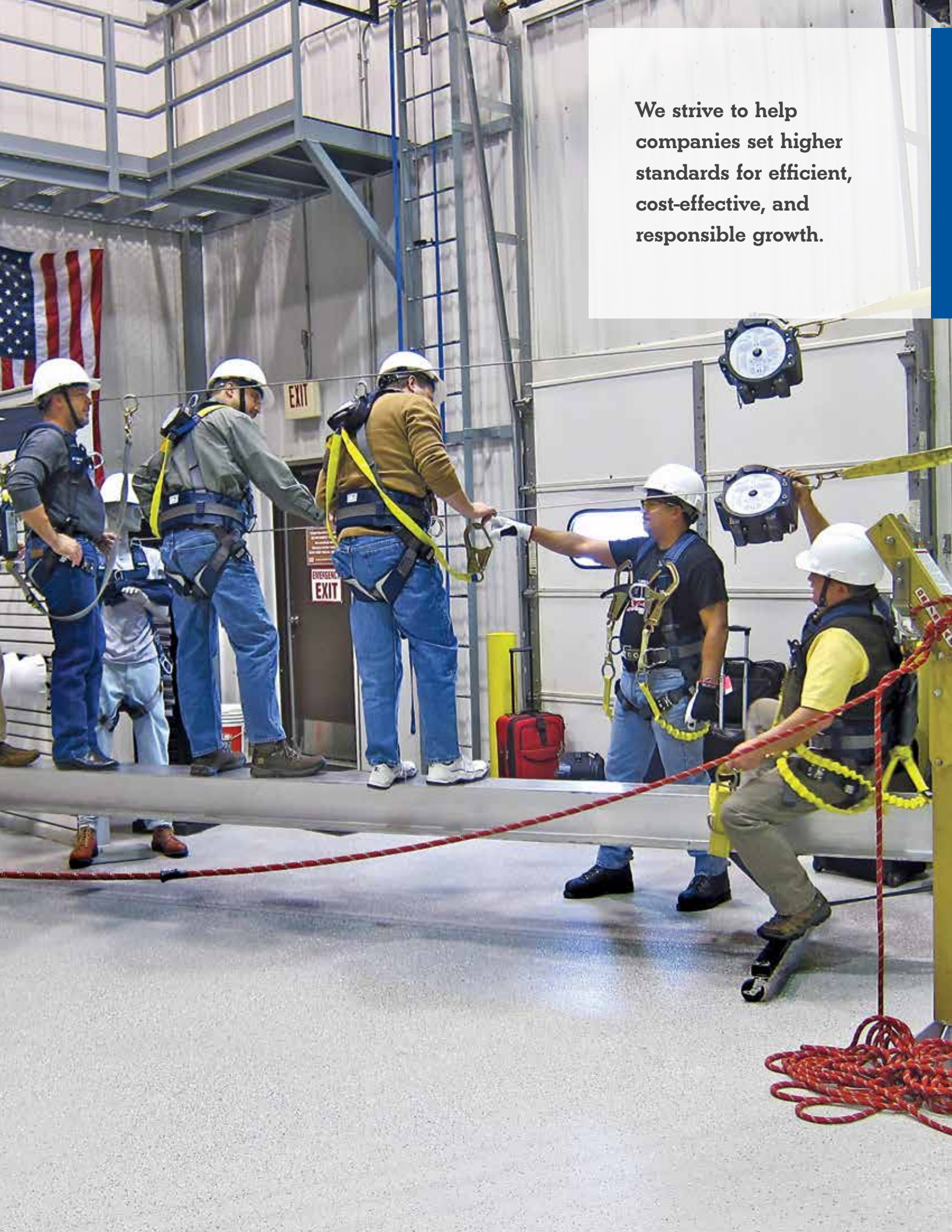
In 2012, we began reviewing priority ESG issues for North American companies as part of the formal PMC process. In 2013, we expanded this process to our European portfolio companies and began the process for our Asian portfolio. Any identified issues or opportunities are shared with the relevant industry and KKR Capstone operations teams, and top issues are integrated into ongoing PMC discussions.

Responding to ESG Challenges and Opportunities

The ESG challenges and opportunities faced by our private equity portfolio companies vary greatly over time and are based on a company's individual characteristics, including their industry, geography, and stakeholders. Where challenges can be addressed through better ESG management, we work with companies to address problems and improve efficiencies by providing assessments, resources, and expertise. We provide this support before investing, through our due diligence process, and after investing, through our portfolio management approach.

We partner with certain companies through our proactive ESG programs. With others, we respond to specific ESG-related needs or requests as part of an individually tailored plan. In our effort to provide practical guidance, we integrate the consideration of ESG issues into existing conversations and collaborations with functional leaders from across our private equity portfolio. By ensuring that our approach to managing ESG-related issues is highly customized and collaborative, we are more likely to achieve success. When there are shared issues across the portfolio, we leverage our experience and the experience within our portfolio companies to provide tested solutions to these common challenges.

We strive to help companies set higher standards for efficient, cost-effective, and responsible growth.



Investing in Solutions Around the World⁶

KKR is proud to invest in businesses that are working to address pressing societal issues.

For nearly four decades KKR has focused on achieving long-term growth for companies. Our industry teams and KKR Capstone strive to identify new markets and strategies for company growth, improve efficiencies, and deliver on opportunities to create value. Because of the changing global economy and its challenges, addressing the ESG impacts of companies is a growing part of KKR's approach to being a solutions provider.

Today we not only apply the concept of ESG management across our portfolio, but we can also demonstrate examples where responsibility and sustainability are core parts of an investment thesis. Certain product and service providers build their businesses by solving societal problems in areas of waste management, water infrastructure, food safety, product quality, and raw material sourcing, among others. KKR is proud to have invested in businesses that are addressing important societal issues such as these. We plan to continue to look for opportunities where our investments can generate returns while also alleviating problems.

Supporting Worker Safety

Capital Safety



Workplace accidents are all too common and can disable workers, devastate families, and damage companies. Ensuring that employees have the training, equipment, and processes to keep them safe on the job is essential. **Capital Safety's** mission is to ensure that workers can provide for their families by helping them stay safe on the job. The company does this by producing high-quality fall prevention equipment that includes harnesses, lanyards, self-retracting lifelines, and safety systems for workers in the fields of construction, transportation, utility management, and energy. KKR owns companies that employ workers in many of these sectors, and we support Capital Safety's mission of providing top-of-the-line safety equipment around the world.

Providing Clean Water

UEL



China is a country of more than a billion people, and these citizens, along with their communities, businesses, and manufacturers, require an abundance of clean water to thrive. However, challenges related to water pollution and growing resource demand have led the government to emphasize reducing contamination and promoting recycling. **UEL's** growing water treatment capacity and its cutting-edge membrane technology represent key components in China's campaign to address water pollution challenges. The company helps alleviate budgetary pressures on local governments by cutting the amount of municipal land needed for water treatment plants and by operating plants at the highest cost-efficiency, while also reducing hazardous seepage often associated with older conventional treatment facilities. Together, UEL and KKR aim to be at the forefront of this sector, providing innovative solutions, technological expertise, and positive market standards.

Combatting Deforestation

Santanol



Sandalwood is a sought-after commodity for everything from high-end furniture and home goods to fragrances and toiletries, but sandalwood trees only grow naturally in India, Indonesia, and some Pacific islands. High demand has led to deforestation in their natural environments, the emergence of a black

market, and the over-exploitation of natural supply. **Santanol** is one of two Australian horticultural- and forestry-management businesses producing sandalwood. During the last decade, the management team at Santanol has developed systems and technology to improve the survival rates of crops

to create a sustainable sandalwood plantation. Santanol and the Australian plantation industry will be able to supply global markets with sandalwood in the years to come. KKR looks to equip Santanol with the resources to better achieve its mission and promote a legal supply of Indian sandalwood.

⁶ The above highlights companies that KKR believes most represent its focus on ESG-related issues globally and are for illustrative purposes only. They are not representative of all investments made by KKR Funds, and it should not be assumed that any investment in the companies identified was or will be profitable.

Our Proactive ESG Programs

Overseeing a portfolio of companies provides us the ability to identify common challenges and shared opportunities.

To best address these opportunities and support our portfolio companies, we have designed five proactive ESG programs. The programs are voluntary and tailored to each participating company. They include three global programs: Green Portfolio Program, Responsible Sourcing Initiative, Integrity and Engagement, and two U.S.-focused programs: KKR Wellness Works and Vets @ Work. In 2014, we plan to explore the development of additional programs, such as data privacy and security, an issue that is important to many companies and their stakeholders globally.

Green Portfolio Program: Partnering for the Environment

In May 2008, KKR launched the Green Portfolio Program (GPP) in partnership with Environmental Defense Fund (EDF) – a leading nonprofit with more than 700,000 members worldwide and a long history of helping companies realize bottom-line benefits by better managing their environmental impacts. The GPP drives operational improvements by using an “environmental lens” to assess the critical business activities of KKR’s participating private equity portfolio companies.

At the core of the GPP approach (see sidebar) is a set of analytic guides to help each company’s management team assess and track improvements across several key environmental performance areas (KEPAs). KEPAs for the GPP include reducing greenhouse gas emissions, water use, and waste, and responsibly managing the use of priority chemicals and forest resources. Portfolio companies use these guides to identify their most material areas of environmental impact and design initiatives to manage these areas. If participating companies already have environmental efforts underway, the GPP supplies additional resources, performance metrics, and tailored support. We are developing a vision for the next five years and thinking about what will continue to drive innovation and progress within this program.

Expanding Our Team and Resources

In 2013, we continued to build on the team and resources that we have assembled in the last five years. Six KKR Capstone executives across North America, Asia, and Europe work with executives from the Global Public Affairs team as part of the global GPP leadership team. This team meets monthly to review participating companies’ progress, share best practices across regions, and determine our priorities related to program expansion.

As part of this program, in 2013 we published our *Green Portfolio Program Handbook*, a document comprising 11 guides focused on common areas of interest, such as fleet energy efficiency, retail store energy efficiency, and data center energy and water efficiency. To distribute the content of the *GPP Handbook*, we conducted six webinars with ICF International, an expert environmental consultancy. The webinars, which were open to KKR portfolio companies, covered how to use the information in the *GPP Handbook* and highlighted possible environmental initiatives by relevant focus areas and industries. Shortly

Green Portfolio Program Approach

The following process is tailored to companies’ existing sustainability and ESG programs.



Select Priority KEPAs

- Review current environmental practices
- Assess environmental and business impact through materiality assessment
- Identify performance areas for focus in the GPP



Establish Metrics and Baseline

- Establish key metrics to assess progress on priority KEPAs
- Collect historical data and establish baseline for selected metrics



Develop Goals and Action Plan

- Identify improvement targets against selected metrics
- Develop and implement action plan



Measure and Report Results

- Report performance against baseline and targets regularly
- Assess progress and action plans, amending as necessary

after publication, we sought feedback from our portfolio companies and began updating the *GPP Handbook* accordingly. We plan to publish version 2.0 in mid-2014 with the latest updates and information. For more about the *GPP Handbook*, see Online Resources (p. 51).

Reporting on Five Years of Green Portfolio Program Results

At the end of 2013, 24 companies were publicly enrolled in the program, with 25 current and former portfolio companies having participated in the program since its inception in 2008. Nineteen companies reported results in 2013, the GPP's fifth annual results announcement.⁷ Their reported efforts have led to the estimated cumulative results through 2012 as shown below. For more information, see Online Resources (p. 51).



View the Green Portfolio Program website

Cumulative Green Portfolio Program Results 2008-2012⁸



⁷ Nineteen of the KKR portfolio companies participating in the Green Portfolio Program in 2013 reported results. Reporting for the first time in 2013 are Del Monte Corporation in the United States; and Bharti Infratel and Dalmia Bharat Cement in India.

⁸ See Important Information regarding the Green Portfolio Program and its methodologies (p. 51).

Green Portfolio Program Snapshots⁹



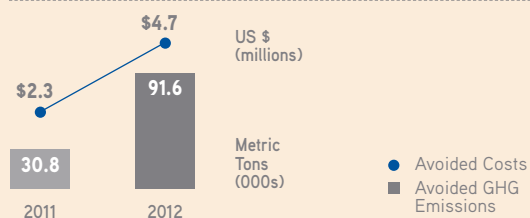
Company Summary: India's largest private cement company

GPP Focus: Measuring energy consumption at its Ariyalur production facility

Results Since 2010:

- Avoided **\$7 million** in costs
- Increased efficiency by **38 percent**
- Increased production led to increased absolute GHG emissions from the site by **41 percent**
- Avoided **122,400 metric tons** of GHG emissions

Dalmia Cement: Cement Production GHG Efficiency



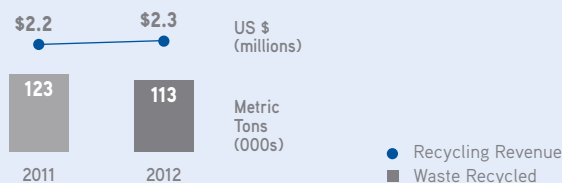
Company Summary: Producer, distributor, and marketer of premium-quality pet and consumer food products for the U.S. retail market

GPP Focus: Reducing and recycling waste from production and distribution centers

Results Since 2011:

- Recycled **more than 236,000 tons** of solid and organic waste, leading to **\$4.5 million** in revenue
- Improved waste recycling efficiency by **12 percent**
- Increased absolute solid waste recycling by **15 percent**
- Revenue of approximately **\$4.4 million**, offsetting more than **50 percent** of waste management costs

Del Monte Corporation: Waste Recycling at Facilities



Company Summary: Second-largest broadline foodservice distributor in the United States

GPP Focus: Improving efficiency of delivery fleet

Results Since 2007:

- Avoided **94,500 metric tons** of emissions
- Decreased absolute GHG emissions from fleet by **10 percent**
- Improved fleet efficiency by **5 percent**
- Avoided **\$28.4 million** in fuel costs
- Used **360 percent** more biofuel in 2012 than in 2011

US Foods: Fleet GHG Efficiency



Company Summary: Designs, manufactures, and sells specialty flooring products throughout Europe, North America, South America, and Australia

GPP Focus: Reducing water use in manufacturing facilities

Results Since 2010:

- Avoided **438 million liters** of water consumption
- Reduced absolute fresh water consumption by **14 percent**
- Improved water efficiency by **24 percent**

Tarkett: Water Consumption Efficiency



⁹The following companies are all of KKR's portfolio companies enrolled in the Green Portfolio Program as of December 31, 2013: Accellent Inc., ATU, Bharti Infratel Limited, Biomet, Inc., Bis Industries Limited, Capsugel, Dalmia Cement, Del Monte Corporation, Dollar General, First Data Corporation, HCA Holdings, Inc., KION Group, MMI Holdings Limited, Oriental Brewery, Pets at Home, Sealy, SunGard Data Systems, Inc., Tarkett S.A., TDC, US Foods, Van Gansewinkel Groep, Versatel, Visant Corporation, and Wild Flavors. They are not representative of all investments made by KKR Funds, and it should not be assumed that any investment in the companies identified was or will be profitable.

RSI Company Assessment Process



Identify Companies for Review

Based on industry, products, stakeholders, and sourcing patterns, we select portfolio companies to assess.



Gather Information and Review Issues

With BSR, we administer a self-assessment of sourcing footprints, codes of conduct, and senior executive and supplier engagement.



Analyze Performance and Provide Feedback

With BSR, we assess survey responses, evaluate company's performance, and provide ideas to improve performance.

Responsible Sourcing Initiative: Partnering for Social Value

News stories in 2013 continued to remind us how important it is for companies to ensure that suppliers are meeting their and their stakeholders' ESG performance expectations. Failure to achieve these expectations can result in unacceptable human rights or environmental consequences. It can also pose operational risks, such as supply chain disruption, that affect product reliability or consumer behavior. For these reasons, we continued our Responsible Sourcing Initiative (RSI), an effort launched in 2010 in partnership with Business for Social Responsibility (BSR), a nonprofit organization with a global network of nearly 300 member companies. This program provides our private equity portfolio companies with guidance and resources on improving management of human rights and environmental issues in global supply chains. To date, we have worked with 26 of our portfolio companies with potential exposure to supply chain risks to review their policies and procedures for responsible labor and sourcing practices (see sidebar). In 2013, we screened two additional portfolio companies on their sourcing practices, helped one company improve its supply chain policies, and identified two more for screening in 2014.

As in prior years, together with BSR, we also made available our *Supply Chain Sustainability Resource Guide* and conducted webinars on key topics related to

C A S E S T U D Y

Capsugel's Journey¹⁰

Capsugel, a global leader in delivering high-quality, innovative dosage forms and solutions to its customers in the health care industry, completed an assessment of its sourcing practices with KKR and BSR in early 2012.

The assessment examined four critical elements of basic supply chain sustainability: Leadership and Vision; Designing and Measuring Performance; Establishing Expectations; Engaging with Suppliers. Since its initial assessment, Capsugel has made significant strides in all four categories.

On a four-point scale, Capsugel has improved its overall score from 1.75 in August 2012 to 3.5 at the end of 2013. Key actions include:

- Integrating responsible sourcing efforts cross-functionally in Procurement, Production, Quality, EH&S, and Supply Chain
- Appointing a global, cross-functional team to oversee these efforts
- Developing a Capsugel Supplier Code of Conduct
- Embedding Responsible Sourcing requirements in Global Procurement Corporate Policies
- Defining "critical suppliers" and asking them to participate in a "Responsible Sourcing Self-Assessment Survey" (93 percent response)

Moving forward, Capsugel aims to maintain its commitment to best practices in global sourcing, focusing on continuous improvement and transparency.

¹⁰ Capsugel is the only North American portfolio company that completed a corrective action plan in 2013 as part of RSI. The specific portfolio company referenced is not representative of all investments made by KKR Funds, and it should not be assumed that any investment in the company identified was or will be profitable.



responsible sourcing, including on conflict minerals, general emerging trends, and best practices.

In 2014, KKR will continue to focus on responsible sourcing and develop additional resources for portfolio companies to support their efforts to effectively manage supply chain challenges and opportunities. We will continue to support the private equity portfolio companies identified as having areas for improvement and to assess new private equity portfolio companies as they join the KKR portfolio.

Integrity and Engagement: Partnering for Good Governance

Promoting ethical business practices and thoughtful engagement with stakeholders at our portfolio companies benefits us as investors, while also benefiting consumers, companies' customers, and other stakeholders. To achieve this, we continue to focus on providing resources and guidance to our investment professionals and our portfolio companies on the topics of transparency, stakeholder engagement, and ethical practices.

Transparency and Stakeholder Engagement

Demands for meaningful transparency and corporate accountability continue to increase rapidly around the world, especially as companies expand their operations and stakeholders' access to information is faster than ever before. In response, companies are working to communicate their performance on many fronts, including ESG issues and impacts on society in general. We encourage our portfolio companies to enhance engagement with their stakeholders by educating them about the voluntary codes and frameworks of transparency.

Ethics, Integrity, and Compliance

Regulation from legislation, such as the UK Bribery Act and the extended reach of the U.S. Foreign Corrupt Practices Act, coupled with greater demands for transparency from stakeholders, mean that it is increasingly critical for companies and investors to spend time managing and documenting their governance practices.

Knowing the importance of this to a company's success, we launched a partnership in 2012 with Transparency International (TI), a global anti-corruption NGO. In 2013, Transparency International participated in our annual General Counsel conference, presenting on best practices in anti-corruption and anti-bribery to 32 chief legal officers representing their respective companies. We also co-hosted a webinar for our global portfolio companies titled "Countering Bribery in Business," which provided an overview of TI's International Business Integrity Toolkit.

Advancing Responsible Investment

For KKR, thoughtful, effective anti-corruption policies must be part of responsible investment practices and processes.



Training KKR Executives

To this end, we have conducted training for KKR executives, included due diligence of anti-corruption matters in our private equity investment process, and assisted many of our private equity portfolio companies in enhancing their anti-corruption programs through our portfolio oversight activities.

KKR Wellness Works Program Model



Design Incentives

Companies design an incentive for employees worth approximately \$250 per employee, tied to taking a biometric screening.



Execute Program

Companies communicate the program and incentive. Health management providers then collect a set of biometrics including BMI, blood pressure, lipids, and glucose from each participating employee.



Process Data

The data is processed by health management providers, who in turn reach out to employees to discuss their results, providing additional resources if the data indicates a health risk.



Measure Over Time

Over time, the biometric data and participation rates are reported and measured to track progress for employees and the program overall.



Ensure Compliance

Throughout the process, the companies are engaging with health management providers that adhere to HIPAA guidelines.

KKR Wellness Works: Partnering for Health

The private equity companies in our private equity portfolio employ approximately 940,000 people globally with nearly 50 percent of those employees in the United States, a country where health and wellness issues are increasingly the focus of public attention and discussion.

Because a significant portion of companies' medical costs each year are spent on employees with major risk factors for heart disease and stroke – risk factors including smoking, obesity, hypertension, and diabetes – it became clear to us that we needed to help address this issue in relevant KKR portfolio companies. In addition, research shows that employees' wellness levels can have positive direct and indirect impacts on factors critical to successful companies, such as employee engagement, lost time, retention, and productivity.

Our program, KKR Wellness Works, was launched in 2011 and is built on the idea that employees who know their key health indicators are able to make better decisions for their health and ultimately improve their well-being. Each participating company follows our five-part approach (see sidebar) in administering biometric screenings for their employees to obtain this information and better manage their health. Companies also add other elements (smoking cessation programs, tiered

C A S E S T U D Y



incentives, employee resources) depending on their employee population.

KKR Wellness Works is active at seven of our U.S.-based portfolio companies. Together, these companies provide health care coverage for approximately 190,000 employees. Based on 2012 employment data, our participating companies saw an aggregate biometric screening rate of 72 percent in 2013, compared to 46 percent prior to their engagement with KKR Wellness Works. A new analysis of the biometric screening rates at participating KKR Wellness Works companies is scheduled to be conducted in 2014. All KKR offices in the United States also participate in the Wellness Works program and have seen participation rates of approximately 98 percent in 2012 and 99 percent in 2013 (p. 42).

Because of the size and nature of our portfolio, we believe that we are uniquely positioned to test the effectiveness of wellness incentives and tools used at our portfolio companies. Thus, in 2013, KKR, the University of Pennsylvania, and the American Heart Association (AHA) joined forces on a research collaboration to examine the effectiveness of workplace wellness initiatives. The joint study will be based on de-identified data gathered from KKR and four participating portfolio companies (HCA, Visant, Gardner Denver, and First Data). Results are expected in 2016 and will be shared publicly.

Wellness – What Works?

The relationship between KKR and the AHA began in 2012 and comprises two pillars: research to determine workplace wellness best practices and real-world tools to support portfolio companies and their employees to create healthier lives. In 2013, KKR and the AHA engaged the University of Pennsylvania to conduct the research study, which aims to:

- Measure wellness programs' effectiveness at increasing biometric screening participation, improving employee health, and lowering overall health care costs
- Enhance existing research on workplace wellness, and help employers make more informed decisions and implement more effective proactive wellness programs

We anticipate that the results of this three-way partnership will lead to healthier bottom lines and healthier employees.

Gardner Denver's Cutting-Edge Approach to Workplace Wellness¹¹

Gardner Denver is a leading global manufacturer of highly engineered industrial machinery including compressors, blowers, pumps, and fluid transfer systems. Long before corporate wellness programs were commonplace, Gardner Denver was engaged in the health and well-being of its employees.

Gardner Denver's efforts have evolved over the last several years to create a cutting-edge approach to workplace wellness through a health care ownership culture with programs to assist employees in leading healthier lives.

In 2007, prior to becoming a KKR portfolio company, Gardner Denver began piloting voluntary biometric screenings, health risk assessments, and health coaching for employees. Today, all U.S. employees and their enrolled spouses have the option to participate in incentivized annual health programs. Also, employees and dependents must be compliant with the condition management program should they have a chronic medical condition. By satisfying the necessary requirements, employees and spouses each are eligible for reduced medical contributions – for 2014 the amount can be up to \$540 per year. Using this model, Gardner Denver's employee participation rate has increased to more than 90 percent for the past four years.

The company joined the KKR Wellness Works program and research study in 2013. KKR, the University of Pennsylvania research team, and our other portfolio companies will learn from Gardner Denver and its years of experience.

Improvements in key health measurements for same group of participating Gardner Denver employees and their dependents since 2009

	2009	2010	2011	2012	2013
Health Event Average Score (max. 100 pts.)	72.8	76.4	77.8	77.1	77.2
Average BMI	29.0	29.1	29.1	29.3	28.9
Average Systolic	123.0	120.7	117.8	117.9	118.3
Average Diastolic	77.5	76.5	75.4	74.9	75.2
Average Total Cholesterol	200.7	195.3	198.7	200.9	195.9
Average LDL Cholesterol	119.3	115.6	116.8	116.8	111.0
Average HDL Cholesterol	54.5	53.9	56.8	59.0	60.5
Average Triglycerides	130.6	125.0	122.0	128.8	127.3
Average Glucose	99.3	98.2	98.3	100.5	99.1

¹¹ The following companies are all of KKR's portfolio companies enrolled in KKR Wellness Works as of December 31, 2013: Biomet, Inc., Del Monte Corporation, First Data Corporation, Gardner Denver, HCA Holdings, Inc., Ipreo Holdings, and Visant Corporation. They are not representative of all investments made by KKR Funds, and it should not be assumed that any investment in the companies identified was or will be profitable.

Putting Vets to Work

In just three years, Vets @ Work has expanded to touch many veterans' lives.



21,000 Hired Since 2011

The companies participating in Vets @ Work collectively have hired more than 21,000 veterans, and our shared commitment to this initiative has continued to grow.

= 18

Nine Companies Added

In 2013, we expanded the program to an additional nine companies, bringing our total number of participating companies to 18.

Vets @ Work: Partnering for Employment

Vets @ Work, launched in 2011, is an initiative aimed at recruiting and hiring veterans across our U.S.-based private equity portfolio companies. Numerous companies and studies show that hiring veterans is good corporate citizenship as well as smart business because of veterans' specialized skills, extensive training, leadership experience, and strong character from years of military service.

A core part of the Vets @ Work program is providing resources and best practices to engaged companies. We have developed and distributed a veterans hiring resource guide, and we also facilitate semiannual webinars between our portfolio companies and third-party advisors to deepen our knowledge and relationships. In addition, we encourage the Vets @ Work portfolio companies to participate in job fairs for veterans and to attend key industry events including the Veterans on Wall Street (VOWS) Conference, which KKR has sponsored three times.

In 2014, we aim to further scale the program to additional portfolio companies and deepen efforts at companies already actively engaged. Additionally, leaders at KKR and third-party experts are working together to identify ways we can support and enhance the career progression for hired veterans.

C A S E S T U D Y



Nielsen Exceeds Goal to Hire Veterans¹²

Founded in 1923, Nielsen offers a comprehensive understanding of what consumers watch and buy around the world. The company serves over 20,000 clients in 104 countries with a global team of nearly 35,000 associates.

Since 2012, Nielsen has focused on hiring veterans of the United States armed forces for key positions within the company. To date, they have hired more than 350 veterans, exceeding their annual hiring goals year over year. In 2012, the company joined the 100,000 Jobs Mission, a growing coalition of companies committed to collectively hiring 200,000 veterans by 2020.

The company has a robust network of employee resource groups (ERGs), including one for veterans. Sponsored by Chief Operations Officer Brian West, Support and Employee Resources for Veterans (SERV) is the Nielsen ERG supporting veterans and veteran allies at the company. The group, which has regional chapters, provides social activities and opportunities to influence business strategy to its members. SERV also supports the hiring of additional veterans by promoting the company's incentivized employee referral program.

Nielsen believes that it is important to give back to those who have served our country and focus on the opportunities best suited for veterans' skills while advancing the business' needs. In 2014, Nielsen will continue to participate in career fairs, conferences, and events focused on veterans and are on track to exceed their 2014 goal of hiring an additional 300 veterans.

¹² The following companies are all of KKR's portfolio companies enrolled in the Vets @ Work Program as of December 31, 2013: Academy Sports + Outdoors, Accellent, Alliant Insurance Services, Biomet, Capsugel, Colonial Pipeline, Del Monte Corporation, Dollar General, Energy Future Holdings Corp., First Data Corporation, Gardner Denver, HCA Holdings, Inc., Laureate International Universities, The Nielsen Company B.V., Samson, Toys "R" Us, US Foods, and Visant Corporation. They are not representative of all investments made by KKR Funds, and it should not be assumed that any investment in the companies identified was or will be profitable.

Responsible Investment in Non-Private Equity Asset Classes

As we have become more flexible investors, we have expanded our ESG approach into non-private equity businesses, particularly real assets, such as our energy and infrastructure and real estate investments (p. 20).

ESG Management in Energy and Infrastructure

Global growth and urbanization, particularly in developing markets, have created an unprecedented demand for increased infrastructure and all forms of energy. Demand is particularly acute because the regions where energy needs are strongest are often far from where energy sources reside. Accordingly, there are significant needs for exploration, development, production, transportation, and distribution of energy resources. Moreover, innovation is unlocking previously untapped energy sources to meet global demand.

KKR has invested in energy for many years by supplying capital to respond to a growing demand. In this area, our focus on thoughtful management of ESG issues and stakeholder engagement has grown. In addition, we support company management teams' efforts to engage with their local communities and governments. These complex relationships are important and we seek to bring our expertise, as well as the expertise of our network of partners, to support productive dialogue and profitable investments.

Natural Gas Investments

Many experts would agree that we are currently in the midst of an energy revolution in North America. For decades, U.S. oil and gas production has been on the decline and many associated industries and businesses have moved offshore. Today, this trend is reversing due to the technology-enabled shale gas resource. The natural gas supply in the United States has more than doubled during the course of the last decade, changing what had been a relatively stable energy supply outlook. KKR believes that, if used to its potential, shale gas could provide lasting economic benefits and drive growth in long-dormant or declining parts of the U.S. economy, such as manufacturing and basic industry; improve the U.S. trade balance; increase energy independence; advance U.S. national security; and spur continued technological advancements.

Many experts also believe that natural gas can serve as a bridge fuel for societies, allowing them to transition away from energy sources with higher environmental impacts and toward lower-impact alternatives. To help ensure that we are working to achieve the environmentally beneficial aspects of this energy source, we focus on the key ESG issues associated with the extraction of natural gas from shale gas. For example, when assessing and working with a team involved in hydraulic fracturing, we review current and future water availability and how the company is engaging with its local community.

We continue to strengthen our partnership with company leadership teams to support their management of issues material to these sectors, such as environmental, health, and safety programs and performance.

View our
white paper
on shale gas



Expanding Investments in Solar Energy

In 2013, KKR invested alongside Google in six solar photovoltaic facilities that are currently being developed and will be managed by Recurrent Energy.

The solar facilities have a combined production capacity of approximately 106 megawatts and will provide clean electric power under long-term Power Purchase Agreements (PPAs).

The solar facilities include five projects in Southern California and one in Arizona and will provide power to three local utilities and municipal buyers, including Southern California Edison. The facilities will generate enough clean solar electricity to power over 17,000 U.S. homes. The six projects are expected to be operational in early 2014.

Renewable Energy Investments

Recognizing that a diverse energy supply is critical to the functioning of the world economy, KKR actively invests in renewable energy. As standards for the use of renewable energy increase, we believe that private capital partners can play an important role in helping meet new goals for access and operations.

During the last three years, KKR has made six renewable energy investments, including wind generation in France and solar generation in Spain, Canada, and the United States.

ESG Management in Real Estate

Since launching a dedicated real estate platform in 2011, KKR has focused on investment opportunities where we have differentiated insights or relationships, and where we believe we can add value. In real estate, we target a variety of opportunities, including property-level equity, debt, and special situations transactions, and businesses with significant property holdings that can benefit from KKR's operational expertise. We partner with real estate owners, lenders, operators, and developers to provide flexible capital, which in turn enables them to respond to transaction-specific needs or the funding of future development or acquisition opportunities.

Members of our real estate team integrate ESG considerations into the investment processes when possible, considering areas such as environmental conditions, energy conservation, quality, and employment practices in commercial real estate. While our investments and the integration of ESG considerations can vary, we and the teams with which we partner are making significant progress (see below).

In 2014, we aim to further strengthen our approach to incorporate ESG considerations into the real estate due diligence process and encourage thoughtful and appropriate environmental and social practices during investment.

ESG-Related Enhancements in Real Estate Investments¹³

Sunrise Senior Living Communities

Conducted a series of assessments and worked with management to address the quality of care, employee training, and incident reporting and tracking practices at the facilities, while also standardizing specific care delivery processes, such as medication distribution and health care assessments.

Radisson Blu Hotel in Minneapolis, Minnesota

Integrated environmental considerations and improvements in the renovation of the hotel, including installing efficient LED lighting, low-flush toilets, and a heating, ventilation, and air conditioning energy management system, which is expected to reduce energy consumption by almost 50 percent.

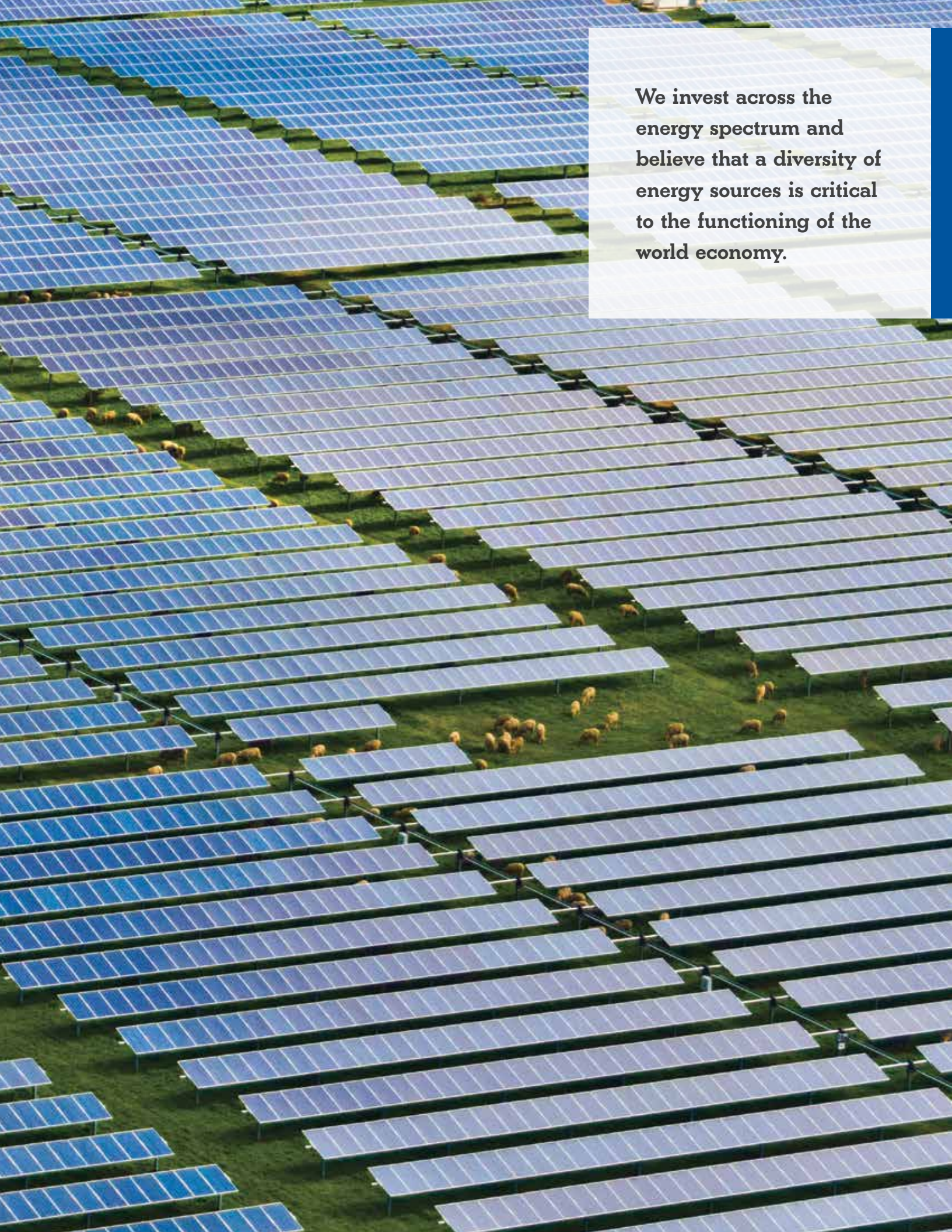
Yorktown Center Shopping Mall in Lombard, Illinois

Upgraded outdoor and indoor lighting systems and supported modifications to the chilled water system at the shopping center to improve efficiency and reduce costs.

Prairie Pines Apartment Complex in Williston, North Dakota

Adopted environmental building best practices in the construction of the new apartment complex, including the installation of low-flow shower heads and toilets; energy-efficient lighting; the use of Energy Star appliances and low VOC paint; and the integration of high-efficiency boilers and gas water heaters.

¹³ The above highlights real estate investments where KKR has supported the integration of ESG initiatives into building practices or operations and are for illustrative purposes only. They are not representative of all investments made by KKR Funds, and it should not be assumed that any investment in the companies identified was or will be profitable.



We invest across the energy spectrum and believe that a diversity of energy sources is critical to the functioning of the world economy.

“Through training programs, promotions, and benefits, we strive to take care of our employees, so that they can focus on our investments and investors.”

Joan Lavin
Chief Learning Officer,
Human Resources



“We work to be good stewards of how the companies in which we invest are governed. It makes sense, therefore, that we should be leaders in how we govern ourselves and what we expect from everyone that works here as well.”

Mark Howard
Director,
Legal and Compliance



Our Community

Whether in our own offices, the operations of our private equity portfolio companies, or the local communities that we affect, we seek to operate at the highest level, knowing our impact can be significant and our role as a good citizen is critical.

“We aim to align our own internal practices on areas such as sustainability and wellness with what we promote as best practice at our companies.”

Peggy Shaughnessy
Managing Director,
Global Head of Office Operations



“It is inspiring to see how many KKR employees are deeply committed to organizations and causes that are making a difference in the lives of others. Through KKR’s community engagement efforts, we aim to further support our employees and the organizations that they value.”

Jennifer Hanley
Director of Global Communications
and Corporate Engagement

“In just three years, KKR has managed to touch nearly every aspect of our work at the AHA. From research to philanthropy, corporate partnerships to employee engagement, they are a partner of choice for us and a leader in the industry.”

Jarod Hector
Director,
American Heart Association



Board of Directors

To establish the basis for strong corporate governance, KKR has adopted policies covering areas such as the board of directors' responsibilities and duties, and the relationship of the board of directors to management.

KKR's board of directors consists of the two founders and co-chief executive officers, Henry R. Kravis and George R. Roberts, and seven non-executive directors: David C. Drummond¹⁴, Joseph A. Grundfest, John B. Hess, Dieter Rampl, Patricia F. Russo, Thomas M. Schoewe, and Robert W. Scully.

KKR's board of directors has four standing committees (see below) that operate pursuant to written charters. To learn more, see Online Resources (p. 51).

BOARD MEMBER	AUDIT	CONFLICTS	NOMINATING AND GOVERNANCE	EXECUTIVE
Henry R. Kravis			○	■
George R. Roberts			○	■
David C. Drummond		■		
Joseph A. Grundfest	○	■		
John B. Hess		■		
Dieter Rampl		■		
Patricia F. Russo		■		
Thomas M. Schoewe	■	■		
Robert W. Scully	■	■	■	

○ Chair
■ Member

¹⁴ David Drummond joined the KKR Board of Directors in March 2014.

KKR's Culture and Community

The ways in which we focus on our values, manage our partnerships, support our employees, and engage with our communities are critical components of KKR's long-term growth and ensure our future is as successful as our past.

Our Values

We have created a single, integrated culture that rewards investment discipline, creativity, determination, and patience and encourages the sharing of information, resources, expertise, and best practices across our offices.

Working together for a common goal begins within KKR. We believe that much of our success to date is attributable to the unique culture of our Firm and the values we live by: integrity; strong relationships with our colleagues and others with whom we interact; teamwork; a focus on excellence; a desire to be innovative and creative in all that we do; and shared accountability for both our successes and shortcomings. We strive to share financial results and recognition across our Firm. We also accept that sometimes we must make hard decisions.

These deeply rooted core values make KKR a special place to work, while reinforcing a culture committed to exceptional performance and results, and to creating sustainable value for our investors and other stakeholders (p. 7). To learn more, see Online Resource (p. 51).

Our Code of Business Conduct and Ethics

KKR's Code of Business Conduct and Ethics sets forth the standards for all types of transactions and interactions. The code emphasizes our commitment to complying with all applicable laws, sets forth basic standards of ethical and legal behavior, and provides reporting mechanisms for ethical or legal violations. The code applies to all employees at KKR. To learn more, see Online Resources (p. 51).

Our Governance Process

KKR is managed as one Firm, with investment teams located around the world that are supported by an organization for which communication and collaboration are priorities. Diversity is valued, employees are invested in, and KKR professionals across all business lines are compensated based on the overall success of the Firm.

Our Investment and Portfolio Management Committees

In each region, our investment processes are overseen by an Investment Committee (IC) and Portfolio Management Committee (PMC). The committees consist of senior professionals drawn from KKR's private equity industry teams, KKR Capstone, and KKR Senior Advisors.

Our ICs manage the pre-investment phase, reviewing and approving all investments. When an investment team determines that an investment proposal is worth consideration, the proposal is formally presented to the applicable IC and the due diligence process commences, if appropriate. The IC monitors all due diligence practices and must approve an investment before it may be made. They also advise on the structuring, negotiation, execution, and pricing of investments.

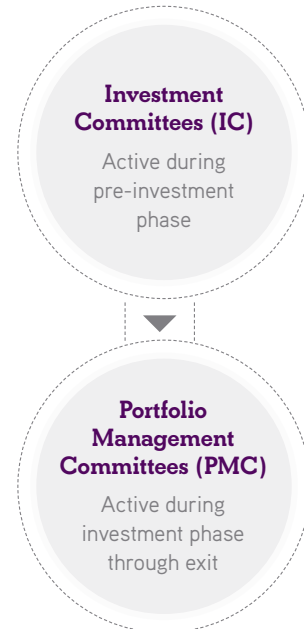
PMCs are responsible for working with our investment professionals from the point at which an investment is made until the time it is exited. The PMCs ensure that strategic and operational objectives are accomplished and monitor the performance of investments. They work closely with our industry teams, our Global Public Affairs team, our Senior Advisors, and KKR Capstone to ensure value creation, and to identify and address challenges. To learn more, see Online Resources (p. 51).

Risk Management

KKR has a Risk Committee consisting of senior KKR leaders across our business segments (e.g., private equity, public markets, capital markets) and control functions (e.g., legal, finance, public affairs). The Risk Committee monitors and evaluates KKR's general business risks, including ESG issues when relevant.

Our Committees

Our investment processes are overseen by two committees.



Our Management

KKR is headed by Co-CEOs and Co-Founders, Henry Kravis and George Roberts, who are supported by three additional executive officers: Todd Fisher, William Janetschek, and David Sorkin.



Henry R. Kravis
Co-Chief Executive Officer



George R. Roberts
Co-Chief Executive Officer



Todd A. Fisher
Chief Administrative Officer



William J. Janetschek
Chief Financial Officer



David J. Sorkin
General Counsel and Secretary

Executive Compensation

We incentivize employees in ways designed to attract, motivate, and retain them; to align their interests with those of our unit holders and fund investors; and to reinforce our culture and values.

We cultivate a culture of meritocracy and fairness, holding people accountable for results and their individual contributions to the Firm. This philosophy means compensation is based on many things, including the performance of the Firm as a whole, one's business unit, as well as one's individual accomplishments. Feedback is gathered along three core performance dimensions: delivering commercial results, leading and managing people, and living the Firm's values. We believe this rigorous evaluation process reaffirms our culture, while also increasing objectivity and thoughtful, merit-driven decision-making.

Our Employees

The success of our business depends on the strength and skills of our employees and teams. Among other things, we depend on their ability to find, select, and execute successful investments; manage and improve portfolio company operations; and find and develop relationships with fund investors and other providers of capital.

Our Culture and Programs

Having employees with varied backgrounds, perspectives, skills, and experiences strengthens our teams and our investment decisions. We focus on promoting and supporting diversity at our Firm and in our industry. We also provide our employees with training and experiences that develop their skills to maximize performance and realize their full potential. Ultimately, a strong focus on diversity and an investment in people build better businesses.

Investing in Training and Development

We believe that our people are the most important differentiator of KKR, ensuring that we remain a leader in our industry. We are committed to continuously investing in employee training and development.

We provide training, mentoring, and executive coaching to supplement employees' on-the-job experiences and feedback. Our Human Resource professionals are

Supporting Employee Wellness

As part of the KKR Wellness Works initiative and our commitment to align with the recommendations that we make to our portfolio companies, KKR has facilitated biometric screenings for our U.S.-based employees for the second year.

We are proud to report that KKR achieved 99 percent participation in the screenings, a one percent increase from 2012. All employees received wellness coaching and health management resources if their results indicated a health risk.

We continue to offer our flu shot program, health risk assessment, and cancer screening outreach initiative annually. In addition, we completed a Firm-sponsored global CPR/AED training and certification campaign. More than 415 KKR employees completed the online CPR training curriculum and 361 of them were certified to administer CPR and AED in an emergency situation. Fostering a culture of health and wellness is a priority for the Firm and something we plan to advance in the coming years.



dedicated to onboarding new employees effectively, targeting development opportunities at key career transitions, and providing skills-based development workshops to maximize performance at every level. To date, these workshops have focused on how to communicate more effectively, build lasting partnerships, manage and lead teams, optimize productivity, and coach other team members to maximize performance.

In 2014, we will continue our focus on employee development, establishing an even stronger foundation for the future.

Developing a Diverse Culture

KKR recognizes the benefits that come from an increasingly diverse workforce and, as such, makes creating an inclusive place to work a priority. We are committed to:

- Identifying top talent and building **development plans** accordingly
- Seeking a **diverse slate of candidates** for key job openings
- Building a **pipeline of diverse talent** by working closely with search firms, universities, and key industry and affinity groups
- Providing **opportunities for our employees** to give feedback and voice concerns by way of networking groups, discussions with senior leaders, community outreach events, and periodic employee engagement surveys
- Offering a **comprehensive set of policies, programs, and benefits** to meet the changing needs of a wide spectrum of individuals

Alignment of Interests

Management equity ownership in the businesses in which we invest has been a guiding principle throughout our Firm's history, and we apply that principle to ourselves: every employee of the Firm has an equity interest in KKR. This equity ownership serves to align the interests of our employees with those of our investment partners and other shareholders, which leads to shared benefits.

C A S E S T U D Y



Supporting Diversity: Emerging Manager Program at KKR Prisma

In the past two years, our multi-manager hedge fund solutions provider, KKR Prisma, has advanced the role of emerging hedge fund managers to deliver superior results for our clients. "Emerging" managers include firms owned by women, minorities, veterans, and people with disabilities, as well as small and early stage businesses. This area is of growing importance for many U.S. public pension plans, foundations, and endowments.

Acquired by KKR in 2012, KKR Prisma constructs and manages customized hedge fund portfolios, seeking to deliver superior performance through proactive strategy allocation and an integrated, quantitative approach to risk management. KKR Prisma takes a specialist approach by seeking leading niche hedge fund managers in each strategy. One aspect of this approach is KKR Prisma's focus on investing with emerging managers.

Based on research and experience, KKR Prisma believes that emerging managers can drive additional risk-adjusted returns for our clients, while also meeting plan sponsor needs for increased diversity. To build more interest and awareness, KKR Prisma has engaged in dialogue with plan sponsors about the opportunities associated with emerging managers in hedge fund investing. KKR Prisma has also participated in industry conferences that support and advance this approach. See Online Resources (p.51).

Engaging Employees on the Environment

In 2013, we worked to better connect KKR employees with our efforts on ESG management and our office greening projects through two outreach events: a global Earth Hour campaign and a New York-based Earth Day volunteer event.

For the third year, KKR supported Earth Hour. Earth Hour is a global action designed to drive awareness of climate change and improve environmental efficiency. Non-essential lights and equipment were turned off at KKR offices around the world for one hour, while employees were also encouraged to observe the hour by making changes at home.

For the first time, we hosted an Earth Day volunteer event for New York-based employees. KKR partnered with SunGard, a company in our private equity portfolio that is committed to addressing environmental issues in its operations, and with the nonprofit Sustainable South Bronx (SSBx), an organization that promotes community greening and green jobs training in the South Bronx neighborhood of New York City.

Together, more than 50 volunteers joined forces on a Saturday in the Hunts Point neighborhood of the South Bronx on a series of beautification projects including cleaning, painting, and planting. Teams worked to restore a community garden, clean up the South Bronx Greenway, and install an environment-friendly green vegetation wall at the SSBx office.

In 2014, we look forward to supporting Earth Hour again and working with SSBx on another Earth Day event.

Greening Our Operations



While our greatest environmental impact comes through our work with portfolio companies, we have an ever-increasing opportunity to address aspects of KKR's direct environmental footprint. To support sustainability at KKR, the New York Green Team has worked with various departments to improve the Firm's impact through the practices we employ and the products we use in our New York office. In 2012, we began to phase out the use of bottled water by providing filtration systems and reusable, individual water bottles to employees. To date, we have completely eliminated bottled water in more than 80 percent of our break rooms and pantries. Annually, this effort is estimated to achieve more than \$20,000 in financial impact, while avoiding approximately 60,000 bottles from entering the waste stream. Additionally in our kitchen and pantry areas, we provide reusable glasses, dishes, and cutlery while also sourcing disposable products that are compostable, biodegradable, or made from recycled content.

In 2013, we extended our efforts to our copy centers and office supplies. We now use 100 percent remanufactured toner cartridges for desktop printers and recycle 100 percent of those cartridges. Our document destruction process uses an environmentally focused approach. By using this process to dispose of confidential documents and used paper, we expect to avoid approximately 70,000 gallons of water use and recycle nearly 20,000 pounds of paper annually. We are proud to use office paper supplies that are certified through the Sustainable Forestry Initiative.

As we expanded and remodeled office space in 2013, we integrated eco-efficiency features into the new building projects and installed applicable retrofits, including LED-lighting, light sensors, climate-controlling window shades, and eco-friendly furniture, carpeting, and paint.

In 2014, we aim to expand our efforts within the New York office and to connect our global office managers with best practices related to office greening to facilitate change more broadly.

Our Impact on the Communities Where We Work and Live

Philanthropy continues to play a meaningful role in the lives of the Firm's founders, partners, and employees.

During 2013 we increased our support for a number of charitable organizations with which we have longstanding relationships and expanded opportunities for employees to get involved in issues they support.

KKR Cares Speaker Series

We continued our successful **KKR Cares Speaker Series**, introducing executives to a range of causes and nonprofits. Featured organizations included the Robin Hood Foundation, the Clinton Foundation, Global Health Corps, and Achievement First in New York; Tipping Point Community, Performing Arts Workshop, and Reading Partners in San Francisco and Menlo Park, California; and Impact Investment Exchange Asia in Hong Kong.

Nonprofit Board Service Opportunities

We connected our employees with **nonprofit board service** opportunities in their respective communities and placed 11 executives with nonprofit partners. We believe that when we give of our time, energy, and expertise, we make a significant and ongoing difference in the communities where we work and live.

Matching Gift Program

In May 2013, we launched **KKR's Employee Matching Gift Program**, which matches employee donations to eligible nonprofit organizations dollar-for-dollar up to \$4,000 per employee.

Since its launch the program has provided close to \$500,000 in matching gifts to nonprofit organizations across the globe. We believe this program further incentivizes employee giving and involvement.



KKR Gives Back

We organized and supported numerous opportunities for employees to give back during Firm-sponsored **days of service**. In New York, close to 200 employees participated in five opportunities to volunteer at local schools, parks, and community centers. In San Francisco, employees volunteered at the San Francisco Food Bank, where they packaged and prepared food for distribution to thousands of residents in need.

Flagship Partnerships

We began our work to develop **flagship nonprofit partnerships** with select organizations in each of our global offices including:

- Sponsors for Educational Opportunities (SEO) and the TEAK Fellowship in New York
- Impetus – The Private Equity Foundation (Impetus-PEF) in London
- Impact Investment Shujog in Singapore

Volunteerism and Charitable Giving

In addition to the time that KKR employees around the world donate individually, they also join together to meet the needs of their communities by supporting the organizations that serve them.

- Thirty-five employees from our California offices participated in the American Heart Association's annual Heart Walk in September, **raising more than \$55,000** to fight heart disease and fund critical research.
- The New York office Social Committee coordinated a fundraiser to support Junior Achievement New York where more than **\$25,000 was raised** and donated.
- New York employees **donated 170 children's coats** and infant bunting to the annual New York Cares Coat Drive.
- Volunteers from KKR's Singapore office **brought eight individuals from the Cerebral Palsy Alliance Singapore to an indoor skydiving center**, which allows all participants to feel as though they are flying. Each beneficiary was paired with a KKR staff member for a day of indoor skydiving and lunch.
- KKR employees **donated \$33,000** to East Bali Cashews' learning center, which supports children and adults with critical education and skills classes.

Our growing focus on volunteerism and giving is shared by our founders, Henry Kravis and George Roberts, both of whom remain actively involved in contributing to their respective communities through their engagement with several leading nonprofits.



Kravis Prize: Right to Play

Through the annual **Kravis Prize**, Henry Kravis recognizes excellence in the nonprofit sector via a one-time grant to outstanding nonprofit organizations. The 2013 recipient was **Right to Play**, an international organization with which KKR maintains a close, supportive relationship. Right to Play uses the transformative power of playing sports and games to educate and empower children facing adversity.



REDF: Ending Chronic Joblessness

KKR continues to engage with **REDF**, founded by George Roberts, which provides equity-like grants and business assistance to a portfolio of nonprofit organizations in California. The grants and assistance are designed to help start or expand social enterprises that employ individuals who were formerly incarcerated, homeless, or struggling with mental illness or drug and alcohol addictions.

Measuring Progress

Setting performance goals and reporting on them is one way we continue to make progress integrating ESG considerations into our investment processes. We are committed to building on our efforts year over year and look forward to finding new opportunities to create sustainable value for our partners.

“The world in which KKR operates is one where the management of ESG factors is not only critical to our investors, but it is also material to whether or not a company is successful.”

Ludo Bammens
Head of EMEA Corporate Affairs



“Sustainability is smart business, essential to long-term success. We’re proud of our progress and know it’s only the beginning.”

Ali Hartman
Vice President,
Global Public Affairs



“As an operations executive, my mission is to help companies create value, improve their efficiencies and drive positive change. In that sense, thoughtfully managing ESG issues is central to my mission.”

Marco Pagacz
Principal,
KKR Capstone, Europe



Our Key Performance Indicators

We continue to make progress integrating ESG considerations into our investment processes and remain committed to building on our efforts in the years to come. In 2010, we started a dialogue with several stakeholders to define key performance indicators (KPIs) relevant to our business model and material issues.

Goals for ESG Management

The following table contains the KPIs that we identified in 2010 and against which we have evaluated our performance to date. This table seeks to show the various ways in which we have made progress against our goals and is organized according to relevant Principles for Responsible Investment (PRI).

	OUR COMMITMENT	WHAT WE HAVE DONE SINCE 2010	WHAT WE AIM TO DO IN 2014
Identification of ESG risks and opportunities pre-investment (PRI I)	Assess potential private equity investment targets for ESG opportunities and risks	Further enhanced guidance for the Investment Committees (ICs) and investment teams to support integration of ESG considerations pre-investment; developed global Private Equity ESG Policy	Integrate Private Equity ESG Policy into investment processes
	Develop resources and guidance to support diligence process	Developed 22 ESG industry guides for sectors or companies under consideration; developed project with Sustainalytics to add more information about relevant standards and benchmarks to guides	Continue enhancements of ESG industry guides and incorporate lessons learned
	Involve ESG diligence team in the assessment of all potential private equity investments as part of the Investment Committee process	Developed and expanded ESG diligence team and enhanced internal monitoring system to include more detail on findings and next steps per investment; strengthened documentation and tracking processes; assessed more than 130 potential investments through the ESG diligence team, which met approximately 34 times in 2013	Finalize documentation processes for all ESG-related diligence
	Integrate ESG considerations when assessing potential investment targets for relevant non-private equity asset classes	Interviewed stakeholders and benchmarked peers to establish ESG-related draft policies for relevant asset classes; enhanced diligence process, including documentation, for energy-related investments	Finalize and implement ESG-related policies for infrastructure and real estate
Enhancement to executive competency (PRI I & II)	Raise awareness among private equity investment and operational professionals about our commitment to, and their role in, responsible investment	Educated our private equity investment and operational professionals about our commitment to managing ESG issues through new employee training and regular firmwide meetings, stressing their accountability for working in partnership with ESG internal experts; included ESG considerations in IC and Portfolio Management Committee (PMC) guidance materials	Educate all private equity executives on KKR's new Private Equity ESG Policy
	Enhance the capabilities of our ESG professionals through subject-matter training and education	Encouraged regular professional development activities for ESG team, such as participation in thought-leadership exercises, key industry conferences, and specialized development	Continue work, no additional goals
	Continue to build our team of dedicated ESG professionals	Expanded our team in 2011, to include a director of public affairs in Asia and an ESG and stakeholder engagement manager	Participate in Environmental Defense Fund's Climate Corps program with two summer fellows
Green Portfolio Program (GPP) expansion (PRI II)	Enhance environmental management in the portfolio companies where eco-efficiency is material to the business	Started with three companies in 2008 and expanded to 24 companies globally by year-end 2013 (full results available at www.green.kkr.com); launched <i>GPP Handbook</i> and related webinars	Publish <i>GPP Handbook 2.0</i> ; develop additional resources to support the environmental improvement efforts of GPP participants

About Our Key Performance Indicators

At the start of our ESG reporting effort in 2010, we defined relevant KPIs for measuring and reporting performance. In doing so, we also identified several KPIs that, while potentially relevant, would not accurately communicate our progress. For example, the “number of companies in which we identified ESG issues as part of the pre-investment

phase” is more a reflection of how many companies we evaluated rather than the success of our evaluation process. Another example includes the “total greenhouse gas emissions of our portfolio companies,” which is not a meaningful metric for the performance of the total portfolio as companies enter and exit the portfolio year to year,

thereby creating volatility that leads to an inconsistent baseline. Instead of these types of performance metrics, we seek to communicate the results of our efforts to integrate ESG considerations into our investment processes. We welcome feedback from our partners and stakeholders as we continue to refine our KPIs.

	OUR COMMITMENT	WHAT WE HAVE DONE SINCE 2010	WHAT WE AIM TO DO IN 2014
Management of ESG issues during portfolio management (PRI II)	Partner closely with our private equity portfolio companies to ensure key ESG issues are being assessed and managed appropriately	Began holding regular internal meetings to review the private equity portfolio for material ESG issues or opportunities; collected ESG-related policies from portfolio companies globally	Assess ESG-related policies at portfolio companies and support those companies interested in enhancing their existing policies or developing new ones
	Integrate ESG considerations in management across relevant non-private equity asset classes	Interviewed stakeholders and benchmarked peers to establish ESG-related draft policies or approaches for relevant asset classes	Develop new resources to support real estate and infrastructure investments' ESG-related efforts
Employee engagement program expansion (PRI II)	Enhance productivity and health of employees in private equity portfolio companies through KKR Wellness Works	Collected a third year of biometric data for participating companies; added one additional company to the KKR Wellness Works program; formed a joint research task force with the American Heart Association (AHA) and engaged the University of Pennsylvania on a multiyear wellness research study	Engage additional relevant portfolio companies; begin the research study with the University of Pennsylvania; and explore additional workplace wellness opportunities with the AHA
Responsible Sourcing Initiative (RSI) expansion (PRI II)	Enhance private equity portfolio companies' policies and procedures for opportunities associated with supply chain responsibility	Analyzed policies and procedures for 26 high-priority portfolio companies and developed action plans where we saw a need for improvement; moved four portfolio companies from “needs improvement” to “satisfactory” or above; conducted approximately eight webinars on key topics in responsible sourcing	Continue working with companies to enhance their responsible sourcing programs
Transparency and stakeholder engagement (PRI III)	Encourage private equity portfolio companies' efforts to report on their sustainability and ESG initiatives to key stakeholders	Developed web-based learning events and continued to provide guidance as appropriate, including through the ESG round tables; approximately 30 percent ¹⁵ of our global portfolio companies report or are beginning to report publicly on sustainability-related issues	Create additional web-based learning events and support further round table discussions
Promotion of responsible investment (PRI IV)	Work with individuals throughout the private equity value chain to share best practices	Convened approximately 11 ESG round table and stakeholder engagement events in Europe and North America	Organize two events in 2014 for investors and portfolio companies
	Continue involvement in sector initiatives to promote the PRI and other guidelines for responsible investment	Participated in industrywide events that target mainstream investors on ESG issues, including the keynote at Private Equity International Responsible Investment Forum in 2010 and 2011; contributed case studies to industry publications	Continue participation in industry events that target mainstream investors on ESG issues as well as active engagement with the PRI

¹⁵ For purposes of this number, a company was considered “reporting” if it independently disclosed performance metrics on its CSR or ESG programs.

Goals for ESG Management (continued)

	OUR COMMITMENT	WHAT WE HAVE DONE SINCE 2010	WHAT WE AIM TO DO IN 2014
Collaboration with partners (PRI V)	Work with others in the financial services industry to develop a common framework for ESG reporting	Participated in the development of guidelines and performance indicators for the private equity sector by contributing to the PRI self-assessment survey; continued to contribute to the Sustainability Accounting Standards Board	Continue to advocate for, and participate in, efforts to improve the thoughtful management and disclosure of ESG issues
Transparency and reporting (PRI VI)	Integrate discussion of ESG issues into communications with our fund investors	Integrated ESG management into discussions at three annual global conferences with our fund investors and distributed quarterly ESG updates when appropriate	Continue to provide information about our ESG management and facilitate conversations with limited partners about our approach to responsible investment
	Provide data and KPIs that clearly link ESG goals to business performance	Measured and reported the financial benefit of the Green Portfolio Program; developed key performance indicators for other programs, such as KKR Wellness Works	Explore additional KPIs that capture the relationship between business success and ESG performance; participate in industry efforts to further develop framework
	Engage stakeholders to obtain feedback on our ESG reporting	Interviewed approximately 20 diverse stakeholders between 2009 and 2011 to help define our approach to ESG reporting; in 2013, we conducted another stakeholder review and a professional analysis of our report to identify additional opportunities for improvement	Continue to gather feedback on our ESG reporting efforts and monitor best-in-class reporting trends

Goals for KKR's Long-Term Growth

To monitor our progress on managing KKR for long-term growth, we have begun to develop KPIs that are relevant to our business. The following

table provides an overview of some of these KPIs and targets as well as our assessment of our current performance as compared to 2010. This effort

continues to be a work in progress and we aim to further develop these KPIs and targets over time.

	OUR COMMITMENT	WHAT WE HAVE DONE SINCE 2010	WHAT WE AIM TO DO IN 2014
Environmental Footprint	Assess our environmental impact and identify opportunities for improvement	Formed the KKR Green Team, a committee in our New York office, focused on finding "green" solutions for KKR's internal operations; reduced packaging waste and costs in our New York operations by purchasing items in bulk and reducing water bottles; supported Earth Hour and Earth Day through employee engagement events	Continue to support environmentally friendly practices and products at our headquarters; share office greening best practices with our global office operations teams
Workplace Diversity	Identify opportunities to increase diversity of investment professionals at KKR	Adapted recruiting practices to increase access to candidates with diverse experiences and less traditional backgrounds; continued to look for ways to expand our recruitment efforts	Continue investing in and focusing on diversity initiatives, and explore additional ways to expand efforts
Corporate Engagement	Create opportunities to deepen community involvement for all Firm employees	Hired a director of corporate engagement in 2012; launched KKR Cares Speaker Series; facilitated three community service events; developed KKR's Employee Matching Gift Program available to all employees globally	Continue to build relationships with nonprofit organizations to identify employee volunteerism and board service opportunities; host additional firmwide volunteer events

ABOUT KKR

KKR is a leading global investment firm that manages investments across multiple asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds. KKR aims to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation at the asset level. KKR invests its own capital alongside its partners' capital and brings opportunities to others through its capital markets business. References to KKR's investments may include the activities of its sponsored funds. For additional information about KKR & Co. L.P. (NYSE: KKR), visit KKR's website at www.kkr.com.

CONTACT

We value feedback on our ESG efforts and corporate citizenship program. We welcome your questions and comments on both our report and our performance. Email sustainability@kkr.com with any questions or suggestions.

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ONLINE RESOURCES

For more information on KKR's ESG efforts and citizenship program, see www.kkresg.com. For additional details about specific topics found throughout this report, see the following listed resources:

- Page 8 KKR Key Milestones 2008-2013: www.kkresg.com/milestones
- Page 13 Global Reporting Initiative's Technical Protocol: www.globalreporting.org/reporting/reporting-framework-overview/Pages/Technical-Protocol-.aspx
- Page 15 KKR Network of External Partners: www.kkr.com/company/responsibility/network-external-partners
- Page 15 Principles for Responsible Investing: www.unpri.org/about-pri/the-six-principles/
- Page 20 KKR Private Equity ESG Policy: www.kkr.com/_files/pdf/kkr-esg-policy.pdf
- Page 22 PEGCC Guidelines for Responsible Investment: www.pegcc.org/issues/guidelines-for-responsible-investment/
- Page 28 GPP Handbook: www.green.kkr.com/how-it-works
- Page 28 GPP Website: www.green.kkr.com
- Page 28 GPP Methodology: www.green.kkr.com/uploads/docs/gpp_methodology.pdf
- Page 40 KKR Culture and Values: www.kkr.com/company/culture-values
- Page 40 KKR Code of Business Conduct and Ethics: www.kkr.com/conduct-and-ethics
- Page 40 KKR Governance: www.kkr.com/governance
- Page 41 KKR Leadership Team: www.kkr.com/leadership/team
- Page 43 KKR Prisma: www.kkr.com/businesses/public-markets/kkr-prisma

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