

**KKR Financial Holdings LLC (NYSE: KFN) has agreed to merge with KKR & Co. L.P. (NYSE: KKR)**

**Deal Value: Approximately \$2.6 billion**

**Sandler O'Neill served as financial advisor to the independent committee of the Board of Directors of KKR Financial Holdings in connection with this transaction.**

**This transaction is Sandler O'Neill's 144<sup>th</sup> financial services transaction since January 1, 2011, more than any other investment bank over this period.<sup>1</sup>**

NEW YORK AND SAN FRANCISCO, December 16, 2013—KKR & Co. L.P. (NYSE: KKR) and KKR Financial Holdings LLC (NYSE: KFN) today announced the signing of a definitive merger agreement where KKR will acquire KFN through a stock-for-stock merger that values KFN at \$2.6 billion.

KFN is a specialty finance company with a portfolio of assets spanning a complementary range of strategies, principally leveraged credit through ownership of subordinated and mezzanine notes across a number of CLOs; special situations; and Private Markets strategies including natural resources, commercial real estate and private equity. KFN is externally managed by KKR.

Under the agreement, which has been approved by the boards of directors of both KKR and KFN, in KFN's case based on the unanimous recommendation of a committee of independent directors of KFN, shareholders of KFN will receive 0.51 common units of KKR for each common share of KFN. Based on KKR's closing price as of December 16, 2013, the exchange ratio equates to a value of \$12.79 per common share of KFN, implying a 35% premium to KFN's closing price on December 16, 2013, or \$2.6 billion in total common equity value.

Based on the volume-weighted average closing price of KKR common units over the 30 trading days ended December 16, 2013, the exchange ratio implies a 27% premium to the volume-weighted average closing price of KFN common shares over the same time period.

Henry Kravis and George Roberts, Co-Founders and Co-Chief Executive Officers of KKR, stated: "Through this transaction, we are acquiring a business with a fully invested, complementary portfolio of assets while increasing the scale and diversity of KKR's balance sheet. Furthermore, through the distribution of KFN's realized earnings, the transaction is expected to provide a meaningfully greater recurring component to KKR's distribution and also be immediately accretive on a total distribution per unit basis."

Paul Hazen, Chairman of the board of directors of KFN, said: "KFN has built a strong business with a diversified portfolio of assets. This transaction offers KFN shareholders a substantial premium for that business, with an implied value in excess of the company's trading price over the last five years, while enhancing holders' liquidity. Furthermore, through the ownership of KKR common units, KFN common shareholders will gain access to the performance of the entire KKR platform, including asset management, capital markets and the KKR balance sheet, in addition to participating in KFN's legacy portfolio."

The transaction is subject to approval by KFN's shareholders as well as customary regulatory approvals and other customary closing conditions. Upon closing of the transaction, which is expected in the first half of 2014, KFN will become a subsidiary of KKR. KFN's perpetual preferred shares as well as its junior subordinated and senior notes will remain outstanding securities of KFN.

(1) Source: SNL Financial. Excludes terminated transactions and self-advisory roles

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